2017 REGISTRATION DOCUMENT

including the annual financial report

ORPEA
GROUP

CONTENTS

2017
REGISTRATION DOCUMENT
including
the annual financial report

ORPEA GROUP

ORPEA's core business is looking after people with physical or mental health conditions impairing their independent living skills by providing them with the essential care they require for their well-being and by supporting them in their everyday life so they can live with dignity in the manner they desire. ORPEA accommodates them in its nursing homes, assisted-living facilities, post-acute and rehabilitation hospitals, and psychiatric hospitals.

AUTORITÉ DES MARCHÉS FINANCIERS AMF

This Registration Document was filed with the *Autorité des Marchés Financiers* on 16 May 2018 in accordance with Article 212-13 of its General Regulation. It may be used in support of a financial transaction if accompanied by a securities note approved by an AMF visa. It has been prepared by the issuer, and its signatories are responsible for its contents.

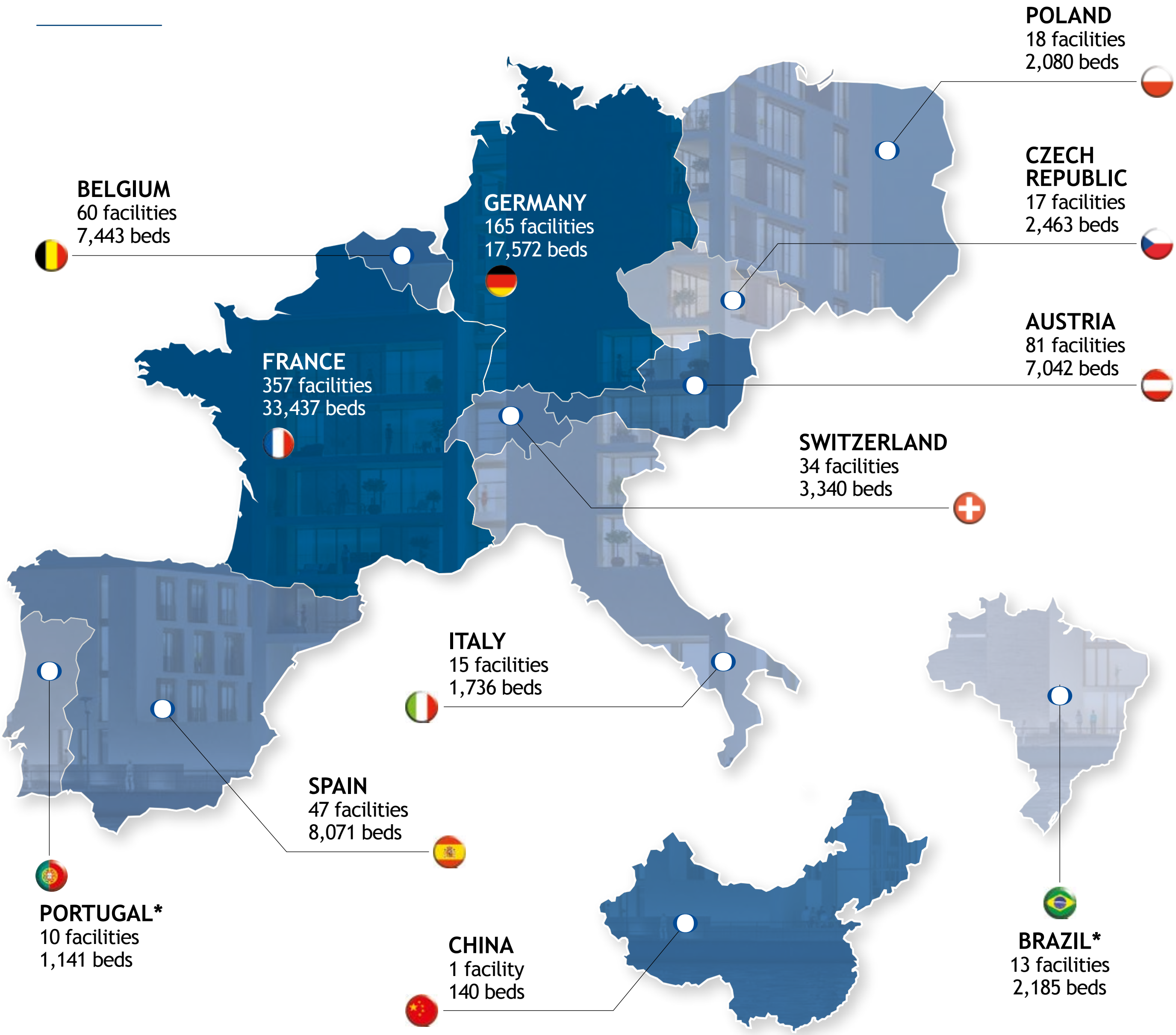
Pursuant to Article 28 of Regulation (EC) 809/2004 of the European Commission, this Registration Document incorporates by reference the 2015 Registration Document filed on 19 May 2016 under number D.16-0509 and the 2016 Registration Document filed on 19 May 2017 under number D.17-0542.

The aforementioned registration documents are available on the AMF and ORPEA websites (www.orpea-corp.com, under Documentation), or on request from the Company's registered office (ORPEA – Relations Investisseurs/Investor Relations – 12, rue Jean-Jaurès – CS 10032 – 92813 Puteaux Cedex).

ORPEA is now a world leader in long-term care

Since it was founded in 1989, ORPEA has always focused on the quality of its offering for the well-being of its patients and residents, in France and around the world. In recent years, the Group has gradually grown from being a French company into a Europe-wide operator with renowned expertise in long-term care. Over the past 10 years, ORPEA's footprint has expanded from four countries with 80% of its network in France to 12 countries with 60% of its network outside France.

Having established itself as a pan-European group, ORPEA now plans to achieve a global dimension, and it has already commenced its first developments in China and Brazil. The Group continues to expand internationally by offering the highest quality standards in prime locations.



* Partnership with SIS Group (Portugal and Brazil) in which ORPEA's interests stand at 49.5% and 49.9% respectively. These beds are under construction.

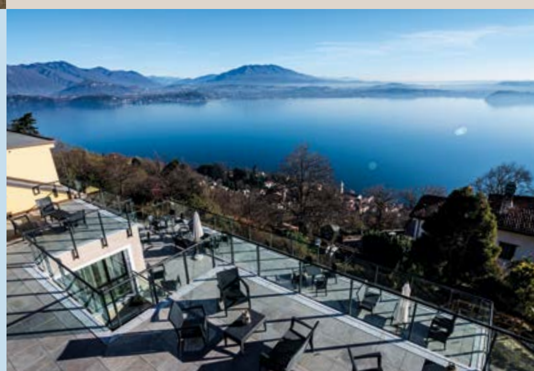
KEY FIGURES

€3,138 million
IN 2017 REVENUE
20-fold growth since the 2002 IPO

€5 billion
REAL ESTATE PORTFOLIO
up €1.6 billion in the past 2 years (46% growth)

818
FACILITIES
in strategic locations at the heart of cities

86,650
BEDS
o/w 61% outside France



54,000
EMPLOYEES
Close to 10,000 new employees hired in 2017

€6.3 billion
IN MARKET CAPITALISATION AT YEAR-END 2017
Share price up 28% in 2017

ETHICAL AND EMPLOYMENT COMMITMENTS IN 2017

539,891 hours
of training
provided in 2017

JOB CREATION AND CAREER MANAGEMENT

With its policy of expansion and opening new facilities, ORPEA is a major contributor to the local economy, creating many permanent non-offshorable jobs each year. In 2017, 9,775 new employees were recruited, including over 5,000 outside France.

Its focus on retaining employees and its commitment to quality have always remained at the heart of ORPEA's employment policy. To achieve these goals, it has continued to enhance and enrich its training programmes.

For example, Celenus-Kliniken in Germany has introduced a special two-year "training to be a co-therapist" module to help nurses deal with the challenging situations they may encounter with certain patients. In Austria, the SeneCura Academy opened its doors in 2017, offering all its care staff training accredited by the country's supervisory authorities. Likewise in Switzerland, Senevita set up its own Academy in 2017, and the first classes are due to begin in 2018.

Through training, ORPEA also aims to provide the best quality of life in the workplace and prevent psychosocial risks. In 2017, a module entitled "Understand and manage an institution by developing a strategy of planning ahead for psychosocial risks" was devised for all the managers so that they can prepare more effectively for team management crises in the broad sense of the term.

PARTNERSHIPS AND LOCAL COMMUNITY PROJECTS

In 2017, ORPEA continued to pursue an array of different charitable initiatives for local not-for-profit organisations.

In France for the second year in a row, a majority of its facilities supported the "Imagine for Margo" association, which raises funds for new treatment programmes for children with cancer. Over €180,000 funds were raised by the more than 800 employees who took part. As every year, a number of facilities arranged a variety of fund-raising activities for the France Alzheimer and Octobre rose charities and also for the nationwide Telethon charity event, which brought in close to €30,000 across France thanks to the widespread support for the campaign.

ORPEA also contributes to the development of not-for-profit organisations outside France. In Spain, its facilities took part in the *El Rastrillo de Nuevo Futuro* charity event, with the funds raised going to help children at risk of social exclusion. In Belgium, the Group backed the Comequi not-for-profit organisation, which was set up to help the rural population living on Lake Kivu and aims to raise funds for sustainable development initiatives that improve their living conditions.

Innovation and research drive in 2017

To keep improving the quality of life and care it provides to its residents and patients, ORPEA pushed ahead with its innovation and research drive.
As part of these efforts, it is developing new non-drug-based therapeutic approaches and rolling out new technologies:

- ORPEA introduced in 2017 innovative new therapy programs based on exposure via virtual reality. The Adhap Services network brought in a Virtual Age simulation headset. The device simulates for the user the difficulties and risks faced on a daily basis by an 87-year old with the associated physical and cognitive impairments. The goal is to identify the changes that need to be made to their home with a view to improving the daily life of frail elderly people. The headset complements Adhap's ageing simulator suit, which is already used on a regular basis during workshop activities. In the psychiatric care segment, ORPEA continued to develop therapy through exposure via virtual reality. Patients are immersed in a virtual environment related to their condition in a technique that can help to treat phobias, addictions and food behavioural disorders.
- ORPEA has continued to roll out technologies enhancing residents' safety and security. For example, it trialled Evit'Errance, a system protecting residents against the wandering risk associated with their illness or trauma, without restricting their freedom to move around inside. The system works using an electronic chip fitted in each resident's shoe. Evit'Errance is a passive monitoring system that aims to prevent disoriented residents and those with cognitive disorders from wandering away from facility.
- Based on a pilot study in association with the Paracelsus Medical Private University (PMU) in Salzburg, ORPEA introduced the *Fit & Beweglich 77+ fitness* programme in 15 SeneCura nursing homes in Austria to build up residents' muscle tone, stamina, coordination and natural balance. The programme has benefited their mobility, nutritional status, physical function, daily living activities and their autonomy.

ORPEA's International Scientific & Ethics Council (ISEC) held the third edition of the ORPEA Excellence Awards in 2017.

27 projects from six countries were nominated for the 2017 awards, with three prize-winners chosen in the following categories:

- **ethical clinical practice:** the Change of perspective initiative introduced by the Peter Janssen facilities in Germany achieved a reduction of over 30% in the number of bed rails used, marking real progress towards the "zero containment" target set by ORPEA's international medical department;
- **nursing home care innovation:** the theatre workshop at the Les Terrasses des Hauts Prés facility (Uccle, Belgium) put on a full-scale production by residents with cognitive disorders with the positive support of carers and a director;
- **hospital care innovation:** the Deep TMS study, a new anti-depressant, demonstrated the benefits of transcranial magnetic stimulation as a promising new approach for severe or treatment-resistant depression. This is the first time that a private French facility had acquired this innovative new tool.

A WORD FROM THE CHIEF EXECUTIVE OFFICER

"We are now in an extremely good position and are uniquely placed to accelerate our international expansion and become the world leader in long-term care.

YVES LE MASNE
CHIEF EXECUTIVE OFFICER OF ORPEA

YVES LE MASNE
CHIEF EXECUTIVE OFFICER OF ORPEA

In 2017, the pace of ORPEA's international expansion went up another gear, as we established a base in Brazil and Portugal, and moved ahead with our value-creating development projects. In the space of a year, we added close to 10,000 beds to our network of facilities, with 60% of these coming from new facilities. Against this backdrop of rapid expansion, we demonstrated our ability to deliver highly respectable growth (10.5%, with revenue now above the €3 billion mark), while maintaining a healthy level of profitability. We also expanded the size of our real estate portfolio by almost €1 billion and improved our debt ratios.

Over the past two years, we have laid the foundations for the next phase of global expansion over the next five to ten years, and so we are uniquely placed to meet the global challenge of population ageing. We intend to press ahead with our international expansion drive in both our core countries and in new territories. We will replicate our successful model of opening up new facilities in Europe's and indeed the world's largest cities, with a focus on prime locations where purchasing power is high and on selective acquisitions. We never compromise on our exacting quality and investment standards.

We owe our past success and will build our future on three fundamental pillars:

- **the commitment of our 54,000 employees:** our experienced and highly motivated teams deliver high-calibre support with a mindset of continuous improvement concerning our practices, our care and our services. We nurture a positive environment and are able to attract and retain talented staff through our training programmes and our emphasis on promoting from within;
- **a high-quality offering:** capitalising on the expertise of our teams, we also invest constantly to further improve the quality of our accommodation and care for the well-being and safety of our residents and patients. We also endeavour to achieve the highest possible quality standards and have rolled out our control procedures consistently across the board to cover every country where we operate;
- **a loyal and experienced management team:** the management team has gained an international dimension and is growing in size, but its executives have still been with us for an average of over 15 years. That gives us a very special culture and keeps us focused on the front-line services we provide and the daily realities of our teams, and means we are able to pursue a long-term approach to our development.

Given these key strengths, 2018 is shaping up to be another year of growth and development, as are the following years.

Societal and demographic conditions ripe for international expansion

Global population ageing even more rapidly

The world's population is ageing fast, and this phenomenon is set to accelerate further over the next few years. In particular, the number of over-80s is forecast to skyrocket. That population segment is projected to grow by 230% by 2050 – an increase of 290 million people. According to WHO data, the number of people suffering from neurodegenerative illnesses such as Alzheimer's disease will triple by 2050 from 48 million to 135 million.

Inadequate and unsuitable long-term capacity

By 2030, more than one million new nursing home beds will be needed in the 11 countries served by ORPEA (excluding China) according to the figures released by each country. What's more, some of the existing capacity will need to be completely redeveloped to handle residents with higher levels of long-term care requirements.

Strategy focused on creating value

1. **New openings and acquisitions of facilities in prime locations**
   - Opening of new facilities (locations with strong purchasing power)
   - Selective acquisitions
   - Optimisation of the existing network (extensions, specialisation, etc.)

2. **Continued international expansion**
   - New developments in the 12 countries already in the network, e.g. Eastern Europe, Brazil
   - Identification of new geographical territories with insufficient capacity and strong purchasing power

3. **Real estate strategy of owning around 50% of properties**
   - Ownership rate of around 50% of properties
   - Objectives: secure cash flows over the long term, build up the value of ORPEA's asset portfolio, and increase the security and flexibility of its operating activities

4. **Organisational improvements and control**
   - Quality of care provision in every country the top priority
   - Additions to management and head office teams
   - Additions to corporate functions
   - Support and control

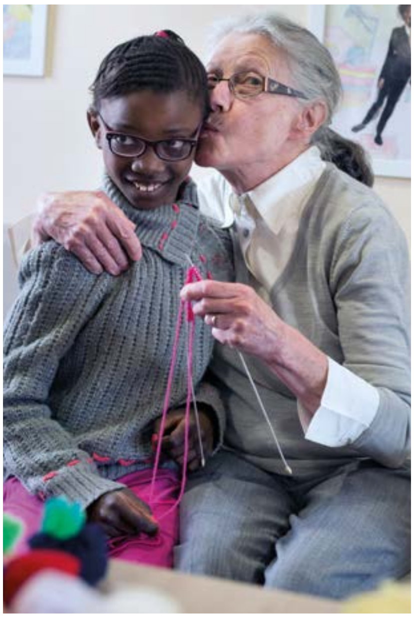
Presentation of the ORPEA Group and its markets

The ORPEA Group offers integrated care services at home or in residential facilities for individuals with physical or mental health conditions. It meets the needs of residents and patients for better and easier access to care, complying with the standards set by the European supervisory authorities. ORPEA now possesses an integrated range of services and additional care covering the full spectrum of patient ages and conditions in:

- nursing homes;
- post-acute and rehabilitation hospitals;
- psychiatric hospitals looking after people with mental health disorders;
- homecare and services;
- senior assisted-living facilities.

ORPEA's core business is to look after people with physical or mental health conditions impairing their independent living skills by providing them with the essential care they require for their well-being and by supporting them in their everyday life so they can live with dignity in accordance with their own wishes.

Since it was founded in 1989, ORPEA has always made the quality of its care and services the cornerstone of its development strategy. The ORPEA Group has undertaken to devote all the requisite human and technical resources to ensure the well-being of its patients and residents and to provide them with the best possible care.



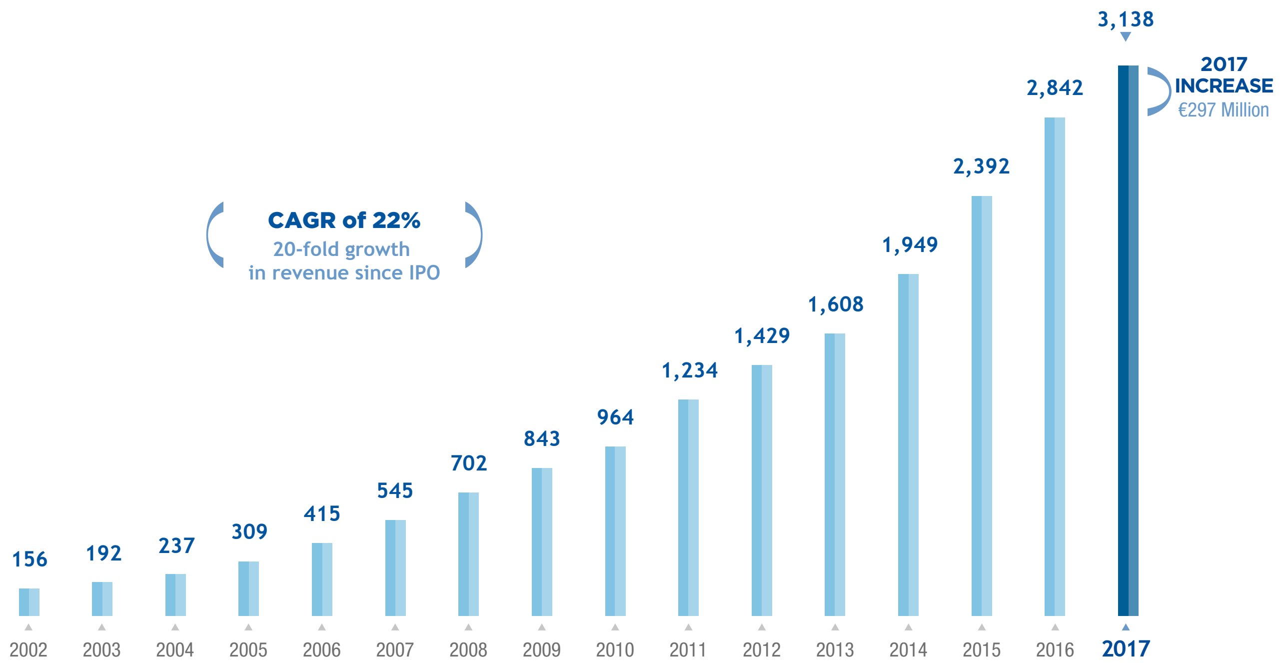
Over the last 28 years ORPEA has grown to become one of the world leaders in long-term care with 86,650 beds in 818 facilities across 12 countries against a backdrop of more rapidly ageing populations – not only in Europe but also worldwide – and increasing need for specialisation and medical care in what is a fragmented sector.

Thanks to its organisation structure built and scaled for international expansion, its financial flexibility, and its footprint spanning ten European countries, Brazil and China, ORPEA will continue rising to the challenges posed by population ageing around the world with its high-quality offering for people with major long-term care requirements.

1.1 ORPEA'S KEY FIGURES

1.1.1 REVENUE

▶ **GROWTH IN THE GROUP'S REVENUE SINCE THE IPO**
(in millions of euros)



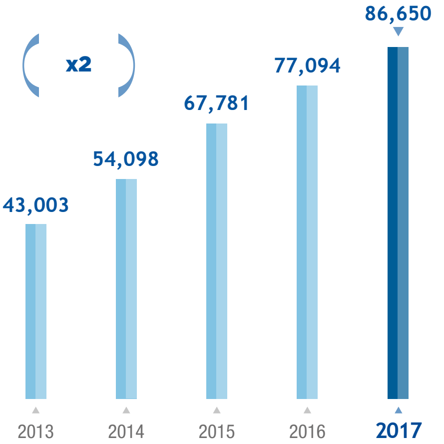
CAGR: Compound annual growth rate.

(in millions of euros)	2017	2016	2015
France	1,775.1	1,695.4	1,596.6
% of total revenue	*57%*	*60%*	*67%*
International	1,363.1	1,145.8	795.0
% of total revenue	*43%*	*40%*	*33%*
Germany	531.7	501.0	287.5
Austria	242.6	176.3	109.8
Belgium	167.6	162.1	157.8
China	1.5	0.4	-
Spain	142.8	101.7	63.9
Italy	51.7	48.5	45.9
Poland	13.0	11.3	-
Switzerland	199.0	142.9	130.1
Czech Republic	13.7	1.7	-
TOTAL	**3,138.2**	**2,841.2**	**2,391.6**

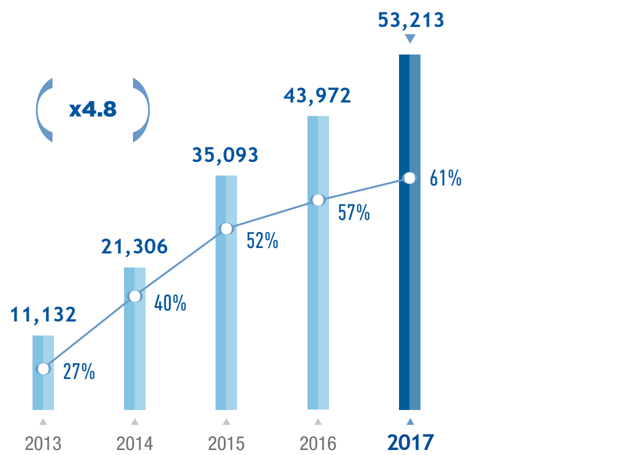
1.1.2 NETWORK EXPANSION

▶ NETWORK'S GROWTH MOMENTUM

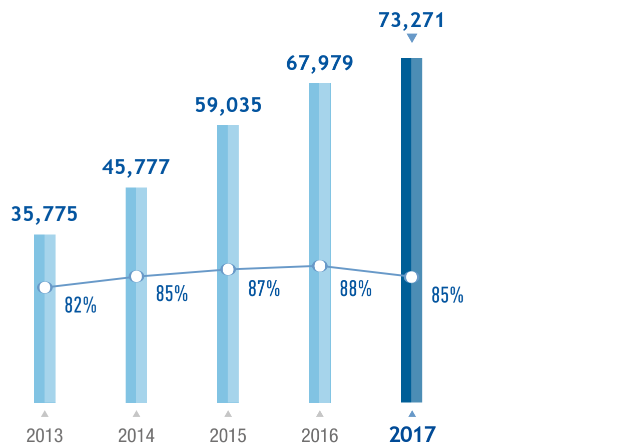
Total network
(in number of beds)



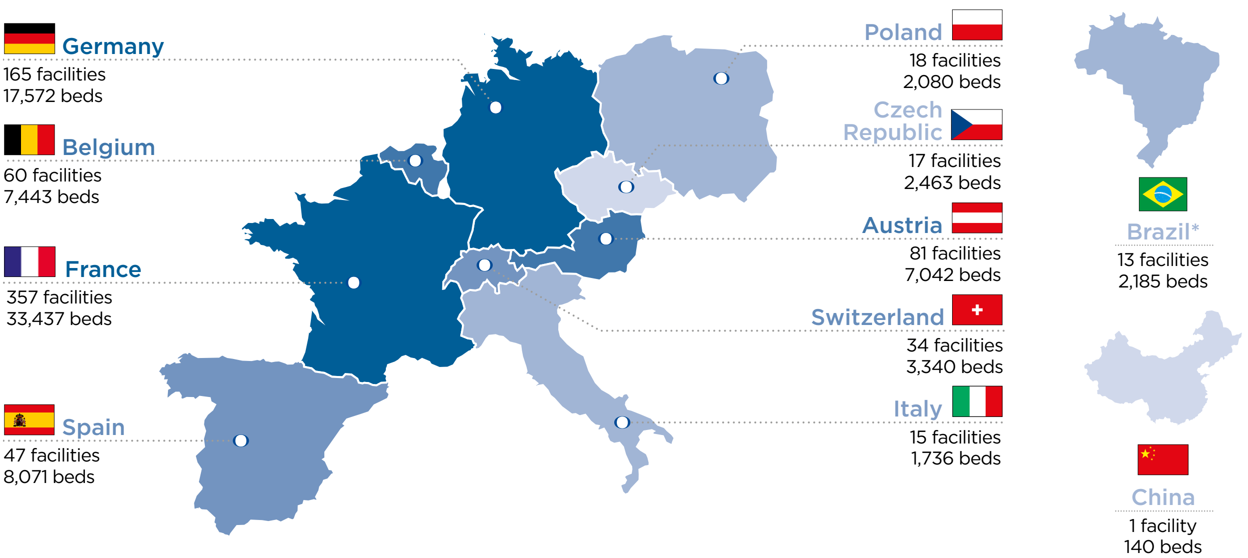
International network
(in number of beds and as a % of the total network)



Network maturity
(in number of mature beds and as a % of the total network)



▶ PAN-EUROPEAN NETWORK OF 86,650 BEDS IN 818 FACILITIES



* Partnership with SIS Group (Portugal and Brazil) in which ORPEA's interests stand at 49.5% and 49.9% respectively.

OVERVIEW OF BEDS IN OPERATION, UNDER REDEVELOPMENT AND UNDER CONSTRUCTION BY GEOGRAPHICAL REGION OVER THE LAST THREE YEARS

N.B.: Beds under construction are not in operation, while beds under redevelopment are only partially in operation.

					Beds*		
	Number of facilities*	Number of beds*	2017 revenue	% 2017 revenue	of which operational beds excluding beds under redevelopment	of which beds under redevelopment	of which beds under construction
France	357	33,437	1,775.1	56.6%	31,214	1,130	1,093
Germany	165	17,572	531.7	16.9%	14,997	-	2,575
Austria	81	7,042	242.6	7.7%	6,858	-	184
Belgium	60	7,443	167.6	5.3%	5,675	134	1,634
Brazil(1)	13	2,185	-	-	-	-	2,185
China	1	140	1.5	0.1%	140	-	-
Spain	47	8,071	142.8	4.6%	7,764	-	307
Italy	15	1,736	51.7	1.7%	1,471	-	265
Poland	18	2,080	13.0	0.4%	972	-	1,108
Portugal(1)	10	1,141	-	-	-	-	1,141
Switzerland	34	3,340	199.0	6.3%	2,638	-	702
Czech Republic	17	2,463	13.2	0.4%	1,542	-	921
TOTAL	**818**	**86,650**	**3,138.2**	**100.0%**	**73,271**	**1,264**	**12,115**

* *Figures at 31 December 2017.*
(1) *Partnership with SIS Group (Portugal and Brazil) in which ORPEA's interests stand at 49.5% and 49.9% respectively.*

					Beds**		
	Number of facilities**	Number of beds**	2016 revenue	% 2016 revenue	of which operational beds excluding beds under redevelopment	of which beds under redevelopment	of which beds under construction
France	357	33,122	1,695.4	59.7%	30,713	1,030	1,379
Germany	165	16,824	501.0	17.6%	14,518	-	2,306
Austria	59	4,995	176.3	6.2%	4,776	-	219
Belgium	60	7,389	162.1	5.7%	5,412	239	1,738
China	1	140	0.4	0.0%	140	-	-
Spain	45	7,857	101.7	3.6%	7,697	-	160
Italy	16	1,738	48.5	1.7%	1,271	60	407
Poland	10	1,174	11.3	0.4%	704	-	470
Switzerland	32	3,071	142.9	5.0%	2,538	-	533
Czech Republic	6	784	1.7	0.1%	210	-	574
TOTAL	**751**	**77,094**	**2,841.2**	**100.0%**	**67,979**	**1,329**	**7,786**

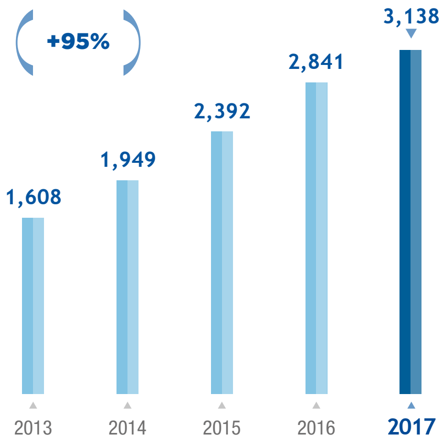
** *Figures at 31 December 2016.*

	Number of facilities***	Number of beds***	2015 revenue	% 2015 revenue	Beds*** of which operational beds excluding beds under redevelopment	Beds*** of which beds under redevelopment	Beds*** of which beds under construction
France	352	32,688	1,596.6	66.8%	29,695	1,140	1,853
Germany	141	14,323	287.5	12.0%	11,722	82	2,519
Austria	58	4,591	109.8	4.6%	4,462	0	129
Belgium	61	7,387	157.8	6.6%	5,538	322	1,527
Spain	25	4,034	63.9	2.7%	4,034	0	0
Italy	16	1,728	45.9	1.9%	1,136	60	532
Switzerland	27	2,705	130.1	5.4%	2,243	0	462
Czech Republic	3	325	0.0	0.0%	205	0	120
TOTAL	**683**	**67,781**	**2,391.6**	**100.0%**	**59,035**	**1,604**	**7,142**

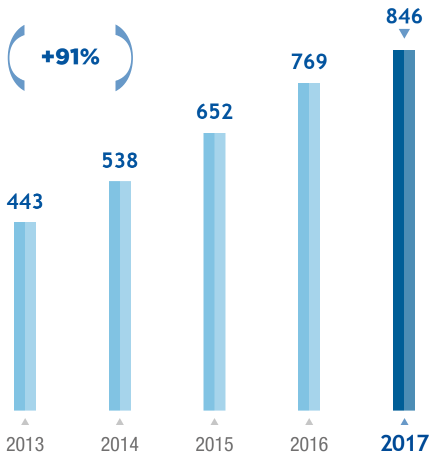
*** *Figures at 31 December 2015.*

1.1.3 SELECTED FINANCIAL INFORMATION

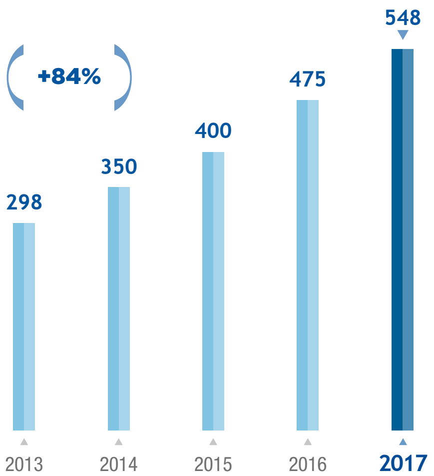
Revenue
(in millions of euros)



EBITDAR
(in millions of euros)



EBITDA
(in millions of euros)



SELECTED FINANCIAL INFORMATION FROM THE CONSOLIDATED INCOME STATEMENT

(in millions of euros) **(IFRS)**	**31/12/2017**	**31/12/2016**	**31/12/2015**
Revenue	3,138.2	2,841.2	2,391.6
EBITDAR**	846.2	769.4	652.5
EBITDA***	547.7	474.5	400.5
Recurring operating profit (EBIT)	394.4	348.1	303.6
Operating profit	413.4	408.1	323.0
Net finance cost	(150.7)	(111.6)	(96.8)
Change in the FVO*	(124.0)	(1.8)	(43.0)
Attributable net profit excluding net changes in the FVO* and excluding the discounting of deferred taxes*****	**197.8**	**177.6**	**153.3**
Impact of the measurement of deferred taxes at the rate expected to apply in France****	52.9	80.0	0.0
NET PROFIT ATTRIBUTABLE TO ORPEA'S SHAREHOLDERS	**89.8**	**293.5**	**126.6**

* *FVO = Fair value of the entitlement to the allotment of shares embedded in the ORNANE bonds.*
** *EBITDAR = Recurring EBITDA before rents, including provisions related to external charges and staff costs.*
*** *EBITDA = Recurring operating profit before net additions to depreciation and amortisation, including provisions related to external charges and staff costs.*
**** *Deferred taxes payable from 2020 onwards have been discounted based on the statutory rate expected to apply to this period for ORPEA SA and its French subsidiaries (25.83% rather than 28.92%).*

SELECTED FINANCIAL INFORMATION FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of euros)	**31/12/2017**	**31/12/2016**	**31/12/2015**
Gross cash flow from operations	432	386	301
Net cash generated by operating activities	398	347	314
Net cash generated/(used) by investing activities	(1,068)	(787)	(1,014)
Net cash generated by financing activities	744	461	597
Change in cash and cash equivalents	74	21	(103)
Cash and cash equivalents at end of period	614	540	519

SELECTED FINANCIAL INFORMATION FROM THE CONSOLIDATED BALANCE SHEET

(in millions of euros)	**31 /12/2017**	**31/12/2016**	**31/12/2015**
Equity attributable to ORPEA's shareholders	**2,715**	**2,113**	**1,810**
Current financial liabilities*	469	559	514
Non-current financial liabilities	4,621	3,801	3,219
Cash and cash equivalents	(614)	(540)	(519)
Net debt	**4,476**	**3,820**	**3,214**
Goodwill	1,013	982	842
Intangible assets**	2,082	1,889	1,824
Property, plant and equipment***	5,041	4,125	3,572
TOTAL ASSETS	**9,695**	**8,375**	**7,371**

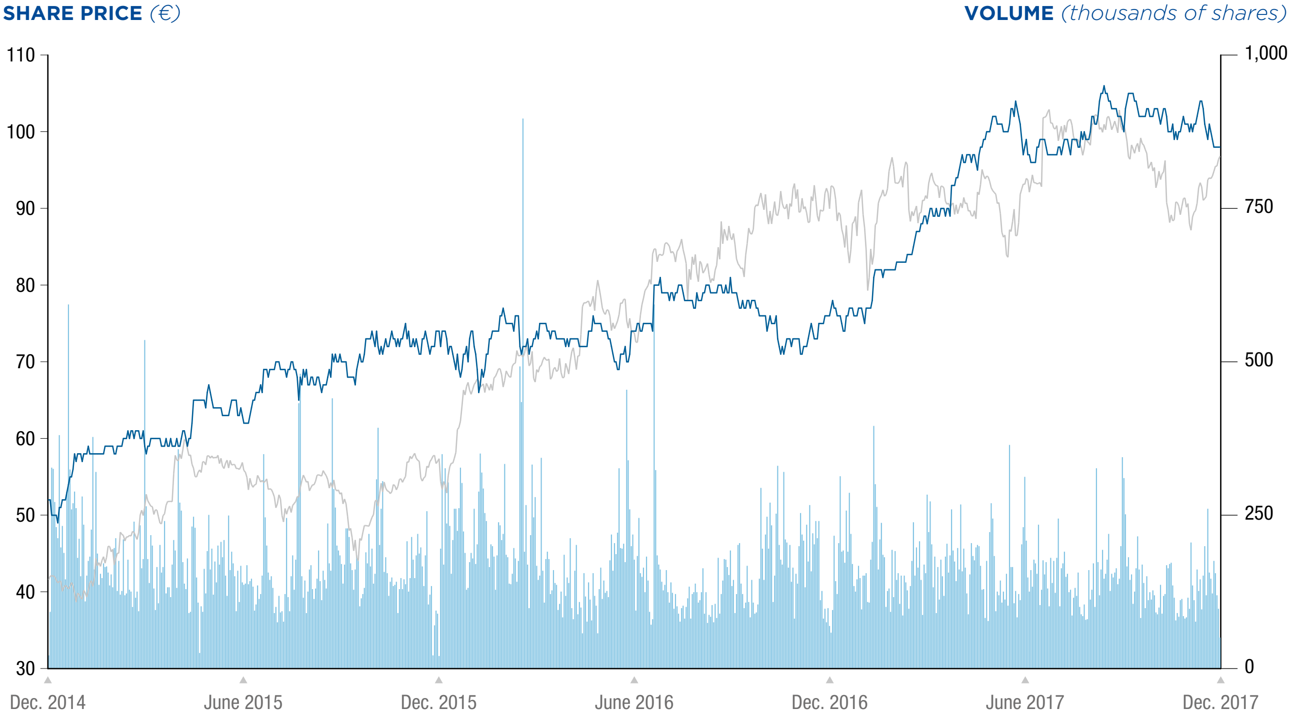
* *O/w liabilities associated with assets held for sale.*
** *Excluding €73 million in intangible assets held for sale in 2016 and €31 million in 2017.*
*** *Excluding €67 million in property, plant and equipment held for sale in 2016 and €33 million in 2017.*

SELECTED FINANCIAL INFORMATION PER SHARE

(in euros)	31/12/2017	31/12/2016	31/12/2015
Dividend (proposed at the General Meeting for 2017)	1.10	1.00	0.90

1.1.4 SHARE DATA

▶ SHARE PRICE PERFORMANCE AND VOLUMES OVER PAST THREE YEARS



Indices

- Compartment A of Euronext Paris.
- Component of the CAC Mid 60, SBF 120, Stoxx Europe 600 and the MSCI Small Cap Europe indices.
- Eligible for the deferred settlement service.

HISTORICAL PERFORMANCE DATA

	2017	2016	2015
Closing price at 31 December	98.30	€76.76	€73.78
12-month closing high	105.75	€80.57	€74.53
12-month closing low	73.90	€65.81	€49.31
Number of shares at 31 December	64,553,123	60,273,691	60,273,691
Market capitalisation at 31 December	€6,346 million	€4,627 million	€4,447 million
Year-on-year share price performance	+28%	+4%	+42%
Average daily trading volume* *(in number of shares)*	156,241	174,266	175,085
Average daily trading volume* *(in millions of euros)*	€14.7 million	€12.9 million	€11.2 million
12-month turnover	62%	75%	74%

* *Volumes including Euronext and the alternative platforms (Chi-X, Turquoise and Bats).*

1.2 ORPEA'S BUSINESS ACTIVITIES

ORPEA cares for those with impaired independent living skills either in their home or in the nursing homes, post-acute and rehabilitation hospitals, and psychiatric hospitals it runs.

Since it was founded in France in 1989, the ORPEA Group has expanded and is now present in 11 other countries (Austria, Belgium, Brazil, China, Czech Republic, Germany, Italy, Poland, Portugal, Spain and Switzerland).

A rigorous and selective approach has guided this stunning pace of development. The Group has always made the quality of its care for all its residents, irrespective of the extent of their care needs, the cornerstone of its development. By pursuing a carefully managed combination of organic growth through the creation of new facilities and selective acquisitions, ORPEA has made sure that it can continue delivering a high standard of care and services to its residents and patients.

ORPEA's strategy has been to expand in countries providing a high level of visibility as a result of their ageing population, an insufficient and/or piecemeal care offering, high barriers to entry, including operating licences, and exacting standards.

Harnessing the experience it has gained in France, ORPEA has developed a powerful model, which it can now roll out across all the countries where it operates, giving due regard to specific local constraints and culture. Its goal is to deliver a carefully crafted range of care and related services geared to the needs of the population in each country.

1.2.1 STEP-BY-STEP CREATION OF A EUROPEAN LEADER

The ORPEA Group has been built methodically from the ground up. Today it is able to deliver an integrated range of high-quality long-term care and is a leading name in France and around the world in a fast-growing sector.

ORPEA has always replicated the same model in every country where it operates based on high-quality services attuned to the demands of local and national supervisory authorities and, of course, patients and residents.

- 1989: The ORPEA Group is founded by Dr Jean-Claude Marian, now its Honorary Chairman.
- 1989-1995: The Group expands in France largely through the creation of 46 facilities, representing 4,600 nursing home beds.
- 1995: The Group consolidates and fleshes out its organisation: ORPEA sets up its administrative headquarters in the Paris region to organise and oversee the Group's accounting, financial and HR affairs. Standardised management methods are introduced at all the Group's sites and the initial stages of a systematic and enduring quality-led approach are formally laid out.
- 1999: Development of a medium-stay care offering: ORPEA focuses on opening new and acquiring post-acute and rehabilitation hospitals and psychiatric hospitals.
- 2002: IPO: ORPEA is floated successfully on the Second Marché of Euronext Paris on 16 April 2002. This natural, yet crucial step in the Group's history raises its profile in France and across Europe. The capital raised also helps to accelerate its expansion drive.
- 2004: Expansion across Europe: ORPEA opens its first two facilities in Italy, in partnership with Italian mutual insurance company Reale Mutua, which owns the buildings. ORPEA commences its drive to expand across Europe, while continuing to focus on its core business of building and managing post-acute and psychiatric hospitals and nursing homes.
- 2006: Further international expansion: ORPEA acquires facilities in Switzerland (psychiatric hospital in Nyon on Lake Geneva), in Belgium (geriatric complex in central Brussels), and in Spain (Grupo Care, with 1,504 beds in 15 facilities).
- 2007: ORPEA joins the Deferred Settlement Service (DSS), improving the stock's liquidity.

  The international growth strategy pays off, with 10% of consolidated revenue generated outside France (an increase of over 85%) for the first time.
- 2008-2009: ORPEA fleshes out its organisation in Europe: functional headquarters are established in Belgium, Spain and Italy, and its quality policy is rolled out across all its facilities in Europe, replicating the French management model.
- 2010: ORPEA completes the largest deal in its history, with the strategically important acquisition of Mediter, which owns a majority stake in the Mieux Vivre Group, and establishes a 49% stake in Medibelge, which operates a total of 4,866 beds in 57 facilities.
- 2011: ORPEA carries out a €203 million capital increase to strengthen its finances and accelerate its expansion in France and in internationally.
- 2012: ORPEA continues its international expansion drive, acquiring Artevida in Spain (1,162 beds and places) and taking full ownership of Medibelge in Belgium. The Group also diversifies its sources of funding by placing its first private bond issue with major French institutional investors.
- 2013: A strategic long-term shareholder comes on board, with CPPIB, Canada's largest pension fund with around CAD 200 billion under management, becoming the Group's leading shareholder with 15.9% of the capital. This helps to raise ORPEA's profile and underpins the sustainability of its long-term development.
- 2014: ORPEA's international expansion drive accelerates further, especially in German-speaking countries, with two strategic acquisitions – Senevita in Switzerland (2,293 beds in 21 nursing homes) and Silver Care in Germany (5,963 beds in 61 nursing homes). These acquisitions double the size of the Group's international network.
- 2015: ORPEA makes further international strides, with acquisitions in Austria and the Czech Republic *via* the SeneCura group, adding 4,236 beds, and in Germany with the Celenus-Kliniken group, which operates 15 hospitals (2,602 beds), plus two regional groups ideally complementing Silver Care's existing network, namely RGB (3,006 beds) and Vitalis (2,487 beds). Vitalis was not consolidated until January 2016.

- 2016: ORPEA's international expansion reaches a new milestone, with the acquisition of MEDI-System, Poland's leading long-term care provider with 704 beds, opening up fresh opportunities for ORPEA in Poland, and also of Sanyres (3,300 beds), bolstering the Spanish network. Late on in the year, the Group also expands its range of care solutions in Switzerland by purchasing Spitex Ville et Campagne, the leading private Swiss provider of homecare services. Lastly, ORPEA opens a 140-bed facility in Nanjing, its first in China.

- 2017: ORPEA achieves a global dimension by establishing a base in Latin America, with 2,185 beds under construction in Brazil in a partnership venture with SIS Group. ORPEA also continues to scale up its European network in Portugal (1,100 beds under construction in partnership with SIS Group), in Austria through the acquisition of Dr. Dr. Wagner (1,812 beds), in the Czech Republic with the purchase of Anavita (932 beds in 6 nursing homes) and in most of the other countries in which it is already present, through the creation of new facilities and selective acquisitions. Lastly, ORPEA strengthens its balance sheet with the early redemption of its ORNANE bonds.

1.2.2 ORPEA'S CORE BUSINESS: A RANGE OF SERVICES COVERING THE FULL SPECTRUM OF LONG-TERM CARE REQUIREMENTS

The ORPEA Group has built up its core business by harnessing its expertise in providing all forms of long-term care – for those with physical and intellectual, permanent and temporary impairments – irrespective of how advanced their conditions are. Its solutions cater for:

- loss of independent living skills due to ageing;
- rehabilitation after a health event or as a result of a chronic illness;
- mental illness.

ORPEA delivers an integrated range of consistent care and services for people experiencing a loss of independence *via* its network of specialised units:

- nursing homes;
- assisted-living facilities;
- post-acute and rehabilitation hospitals;
- psychiatric hospitals;
- homecare services.

1.2.2.1 FACILITIES FOR THE ELDERLY

Diversified range of accommodation

Nursing homes

Most of ORPEA's facilities for the elderly are nursing homes. Long-term care accounts for the lion's share or ORPEA's facilities in every country where it is active.

That said, ORPEA facilities also provide complementary accommodation formulas to give the elderly losing their independent living skills appropriate life and care choices and to satisfy demand from public authorities including:

- temporary accommodation: an elderly person may wish to have a temporary stay in one of the Group's facilities for reasons including:
  - to give a break to their family or professional care-givers who look after them in their home,
  - because of disruption to their care arrangements at home, because their partner is hospitalised, because their in-home care providers are away, because of an emergency or while care arrangements are put in place,
  - after a hospital stay when a return home is considered to be too much too soon by their family, either because they have not yet regained their strength or because arrangements need to be put in place;
- day visits: these allow an elderly person living at home to enjoy the benefit of therapeutic and social activities tailored to their needs one or more times a week, plus events and entertainment building up their social life. These solutions aim to ease the burden on family carers and to support in-home care as effectively as possible. Day visits can also help in the battle against family and social isolation by creating places where they can spend time with those close to them.

All in all, a nursing home offers every resident the following services:

- personalised support with their daily living requirements and an individual care programme meeting the resident's needs and desires, forming the basis for all their accommodation and care;
- logistical and residential services such as accommodation, a diverse range of meals, the vast bulk of which are prepared on-site, meeting European standards and served in the restaurant, laundry and room cleaning services, and various daily entertainment and therapeutic workshop activities, for individuals and for groups.

Special care for patients with Alzheimer's-like neurodegenerative conditions

In all the countries it serves, ORPEA's facilities are equipped to look after the needs of residents suffering from Alzheimer's disease and related conditions because they have living areas including units specially designed to provide appropriate care. Certain facilities are entirely dedicated to looking after patients with these illnesses.

ORPEA gives the care requirements of this type of patient a great deal of consideration. ORPEA's medical department has devised architectural principles for these units based on its knowledge of the issues associated with Alzheimer's disease and the following guidelines:

- patients' dignity and individual needs are respected at all times, they are free to move around freely between living areas and their bedroom, with permanent passive monitoring, appropriate therapeutic activities, and in certain facilities, position-tracking technology enabling residents to walk around in complete safety;
- families enjoy the peace of mind that comes with seeing their relative in a pleasant and secure environment, cared for by staff specially trained to look after them and aware of the risks, and they are also able to spend family time in a dedicated room;
- staff are able to work in a carefully designed and safe environment in which they are able to monitor passively all the residents while arranging activities in shared living areas. The goal is to avoid exacerbating behavioural disorders and to gain a better understanding of them by adopting care practices honed through continuous on-the-job training. Special training modules have been devised and introduced to help teams working in these units.

A range of furniture has also been specially designed based on an understanding of the illness and the risks it poses in these accommodation units.

These protected units aim to maintain and nurture social relationships throughout a resident's stay and reduce all the environmental factors that may exacerbate their condition, to protect their safety and their well-being.

Care in retirement homes

Meticulous organisation is needed to look after the elderly requiring long-term care in a nursing home. Care consists of assistance with everyday tasks several times a day. It also comprises support, nursing and medical care. A multidisciplinary team (its precise composition varies according to each country's legislation) is in charge of overseeing medical treatment in the facility, in line with the instructions and recommendations of each resident's own physician.

Staying true to the values that flow from best professional practice, these multidisciplinary teams provide the care prescribed by the doctors. The care teams overseen by a head nurse and, in certain countries, a coordinating doctor, consist of nurses, healthcare and psychosocial assistants. Their exact make-up and structure also vary from country to country.

External healthcare professionals (physiotherapists, speech therapists, and psychologists, etc.) may be brought in based on medical advice to provide additional care.

Therapeutic workshops led by paramedical staff help to prevent, slow and combat the risks inherent in later life and for residents requiring high levels of care.

ORPEA takes a proactive approach to developing non-drug therapies in its nursing homes to combat the misuse of drugs and promote well-being and independent living skills.

The care requirements and risks of each new resident are assessed by a multidisciplinary team to establish a personalised care plan. Each plan is drawn up individually to meet residents' needs and desires and comply with the best practices in geriatric care.

Integrating the nursing home with the local health and social community helps to make the overall care plan as effective as possible. It creates opportunities for partnerships and access to specialist consultations, lifelong training and transfers of residents in emergencies.

Bringing in interns and student healthcare professionals can also help to enrich teams, while giving the future professionals additional motivation and insights.

Nursing home care plans

A personalised care plan is drawn up for each and every resident after discussions with the individual and their family. It takes into account their life story, their wishes and their interests.

Staff endeavour to create a pleasant and welcoming living environment by organising activities on a daily basis.

A coordinated programme of events and entertainment is arranged by a qualified professional with two main aims:

- social and entertainment activities (arts and crafts, shows, days trips, etc.) to sustain residents' occupational interests: ORPEA's priority is to make all its facilities pleasant and warm living places, so that residents can rebuild their often fragile ties with others;
- occupational therapy workshops on keeping up physical and intellectual capabilities (press review, gentle gymnastics, art therapy, etc.) and sometimes even spa therapy and reminiscence areas, to act preventively against the risks linked to ageing.

Family and friends are invited to take part in the life of the facility to maintain family ties.

Every ORPEA nursing home builds relationships with the local community by fostering ties with volunteer and Third Age organisations, and with schools and by hosting crèche sessions, bringing joy to all residents, families and employees.

Senior assisted-living facilities

In Belgium, Switzerland, Germany and to a lesser extent in France, the Group has also developed senior assisted living facilities providing accommodation suitable for independent or semi-able-bodied elderly who want to continue leading independent lives.

These facilities do not provide medical care, but staff are on hand around the clock and can arrange all the services requested by residents, such as hairdressing, events & entertainment and meals. Senior assisted-living facilities have collective areas.

They are made up of apartments in various bedroom configurations equipped with a basic kitchen and bathroom and on-call assistance. When help is required, the relevant homecare teams or healthcare professionals are called into action.

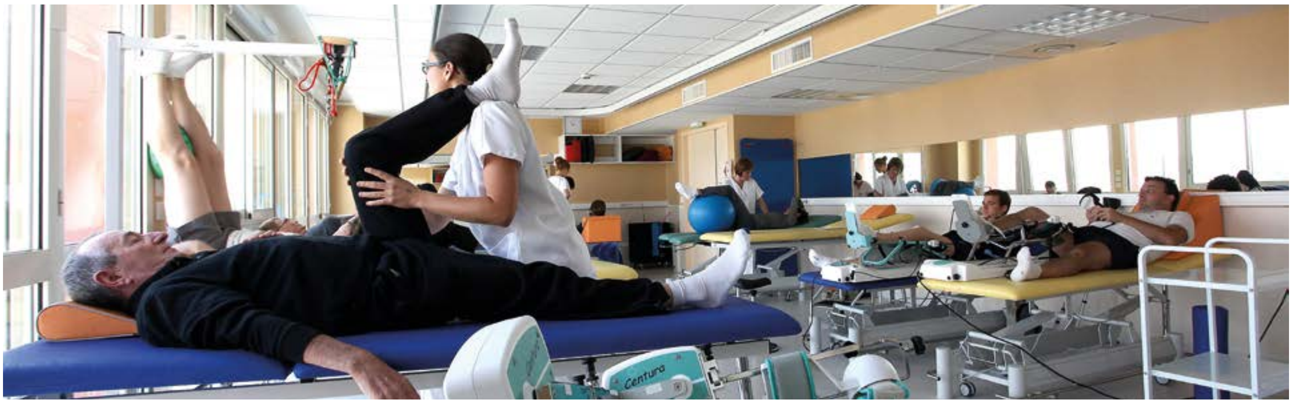
This new type of facility provides residents with a warm and friendly place to live in which everything is designed for their comfort and safety.

1.2.2.2 POST-ACUTE AND REHABILITATION HOSPITALS

ORPEA's post-acute and rehabilitation hospitals, which are located in France, Switzerland, Italy, Germany, Austria and Poland, care for patients requiring functional rehabilitation or treatment balancing overseen by medical or paramedical teams, and technical units specially designed to cater for each area of specialisation.

The aim is to maximise the patient's chances of recovery and of regaining as much as possible of their former independence, so that they can prepare to return to their social and working life and move back home.

In Germany, the fundamental role of a rehabilitation hospital (and also of a psychiatric hospital) is to help patients to get back to work.



Rehabilitation care services

ORPEA has developed an integrated rehabilitation offering, which comprises both in-patient and outpatient services to meet patient demand for rehabilitation in day hospitals or after full hospitalisation so that they can prepare to return home in the best possible manner.

In addition to general rehabilitation, the Group's hospitals have developed specialisations by bringing in professionals with the requisite skills. By doing so, they are able to meet the regional and national health requirements in line with each country's public health targets.

ORPEA has developed the following specialisations:

- **Geriatrics:** dedicated to MCC patients aged 75 years or over, with long-term or at risk of having long-term care requirements. These dedicated units cater to the complex health needs of frail elderly patients arising from the multiple chronic conditions, specific risks of decompensation, their impaired physical and intellectual independent living skills, plus psycho-social and family problems in many cases. The care team's gerontological analysis helps to provide personalised care and manage the greater risks facing the elderly. These geriatric units cater for those who have been laid low by a health condition (surgical or medical), either at home or in hospital, and whose frail state risks causing physiological decompensation.
- **Musculoskeletal conditions:** providing specialised care for patients from trauma, orthopaedic or rheumatological departments. These services look after patients suffering from disabling musculoskeletal conditions such as hip and knee replacements, knee ligament surgery, shoulder conditions and rehabilitation for rotator cuffs, post spinal surgery care or chronic back pain, inflammatory and degenerative rheumatism or sportspeople requiring intensive physiotherapy after surgery.
- **Nervous system diseases:** taking care of patients:
  - after strokes,
  - suffering from a degenerative neurological disease (multiple sclerosis, amyotrophic lateral sclerosis, Guillain-Barré syndrome, etc.) following flare-ups of this disabling disease, intercurrent complications or related surgery (spasticity, ulcers, urology, etc.) for a global assessment of the deficiencies and preventive or therapeutic actions, and arrangement of appropriate homecare and therapeutic assessment.
- The ORPEA Group also has units specialised in looking after **patients in a persistent vegetative state or in a minimally conscious state.** These special units house patients with serious neurological trauma requiring constant high-level care.
- **Cardiovascular conditions:** providing post-operative care for patients who have had heart surgery, a complex myocardial infarction (heart attack) and/or additional complications, or heart failure, infective endocarditis, peripheral vascular disease, or primary or secondary arterial hypertension. The rehabilitation programme consists of reintroducing physical activity for recovery purposes and secondary prevention to make sure patients are better informed about their illness and treatment. It improves patient outcomes, prevents deterioration and reduces the risks of future cardiac problems. It usually includes:
  - medical monitoring,
  - an assessment of physical capabilities,
  - an analysis and assessment of risk factors, and reintroduction of physical effort,
  - therapeutic education about lifestyles, managing the treatment and nutritional advice.
- **Haematology and oncology:** providing "follow-on" care for patients from acute oncology units, whose state of health does not allow them to return home immediately. In most cases, this care caters for:
  - a treatment interval between courses of chemotherapy for frail patients at high risk of decompensation,
  - patients who need to learn how to use medical devices fitted to them,
  - the balancing of pain treatments,
  - enteral or parenteral renutrition,
  - the monitoring of side effects of active or palliative treatments.

The Group's rehabilitation hospitals have qualified multidisciplinary medical and nursing teams on hand. They are made up of generalist and specialist physicians, nurses and professional healthcare assistants, rehabilitation and psychosocial professionals, plus pharmacists in certain countries. To implement the personalised treatment plans, teams make use of high-performance systems catering to each type of rehabilitation offered, depending on each facility's medical specialisation.

Patients are enrolled in conjunction with external doctors from specialised centres and recognised hospital units, giving each rehabilitation hospital its own network to call on in its area of specialisation.

To create the right environment to promote well-being and convalescence, the Group's hospitals offer a diverse range of high-quality accommodation.

1.2.2.3 PSYCHIATRIC HOSPITALS

The Group's psychiatric facilities in France, Switzerland, Germany, Italy and Spain care for patients with mental illnesses.

These hospitals constantly strive to raise their standard of care and safety, and this is reflected by their high level of accreditation – a requirement in certain countries.

To provide patients and those close to them with the best possible care, the ORPEA Group's hospitals relentlessly pursue the development of new techniques and innovate in mental health. In certain cases, they work independently, and in others they work with partners such as teaching hospitals, e-health companies, and institutes providing training in the latest therapies to be approved.

This strategy has led to implementation of complementary innovative evidence-based techniques such as mindfulness, EMDR, Deep TMS, Neuro-Feedback, virtual reality therapy and online health systems.

To underpin this active treatment approach, the Group's hospitals have invested in a mental health education programme for patients and their friends and family. This aims to broaden their knowledge of conditions and enhance their ability to treat themselves, making them full partners in the process.

As part of the same drive to personalise care as far as possible, the Group has set up specialised, expert units dedicated to certain types of patient based on their condition or their age.

Aside from full hospital care, the Group provides patients with alternative solutions, such as day hospitals and night hospital units. These forms of hospitalisation provide better continuity of care and help to prevent relapses or re-occurrences of conditions.

Psychiatric care offering

The Group takes a resolutely multidisciplinary approach in the treatment provided at its hospitals. This allows each category of nursing staff to use the full breadth of their expertise, with a doctor coordinating them. Treatment is laid down in a personalised care plan, which is put together by a team to meet the patient's needs as effectively as possible.

In this approach, the referring physician coordinates the personalised care provided, as well as medical treatment and part of the psychotherapeutic treatment, which may involve psychotherapists, occupational therapists, art therapists, sports physiotherapists, etc., depending on the facility and country.

Conditions treated in the Group's hospitals include:

- mood disorders;
- anxiety disorders;
- obsessive-compulsive disorders;
- addictions;
- eating disorders;
- sleep disorders;
- personality disorders;
- ageing-related psychiatric disorders;
- psychosis;
- overexhaustion or burn-out;
- recently discovered disorders, such as chronic fatigue syndrome, fibromyalgia;
- psychosomatic conditions.

At ORPEA's instigation, some of its hospitals have developed specialist skills in certain areas. Several of its units have now gained real expertise and indeed excellence in the treatment of certain disorders or certain age groups with specific requirements:

- **Geriatric psychiatry units** care for and treat elderly patients with age-related psychiatric pathologies, such as changes in how their disorder manifests itself as a result of the ageing process. They are cared for by geriatric psychiatrists, a geriatrician, a neuropsychologist, a neurologist and an enhanced paramedical team;
- **Public/private units** in France, which look after patients from the public sector through close cooperation between the systems. These public-private partnerships are regarded as unique in France;
- **Child psychiatry units,** which cater for children and teenagers between the ages of 8 and 15 who have mood, anxiety attention deficit and hyperactivity disorders;
- **Young adult units,** which accommodate patients aged between 16 and 25 and are able to implement treatment plans specially geared for this age group;
- **Parent-child units,** which aim to care for both parent and child where post-natal depression has occurred.

In France, a psychiatrist provides logistical and methodological support to medical teams as part of a shared vision facilitating innovation to ensure a consistent approach and promote the widespread adoption of innovative initiatives. This role also encompasses corroborating the scientific foundations, compliance aspects and ethical clinical practice.

Treatment

Treatment may be provided to patients individually or in groups, and the Group uses a combination of drug-based and various psychotherapeutic and technology-based approaches.

Depending on their country, culture and training, practitioners may use one or more of the psychodynamic, cognitive and behavioural, interpersonal, hypnosis-based, support and systemic models, as part of an institutional approach based on integrative psychotherapy.

This framework gives rise to a medical plan catering to the specific needs of the patients cared for and the conditions being treated.

To improve the efficacy of treatment, the Group's hospitals are equipped with innovative technology.

In France, for example, as well as electroconvulsive therapy, therapeutic options include:

- *Deep TMS:* deep transcranial magnetic stimulation of the parts of the brain affected by the condition being treated. This technique is applied in the treatment of depression, obsessive-compulsive disorders, post-traumatic stress disorder syndrome and certain addictions;
- *Neuro-Feedback:* the effects of this may be beneficial in certain forms of depression and anxiety, as well as in sleep disorders and in hyperactivity;
- virtual Reality therapy: exposure in a VR environment, as part of cognitive and behavioural approaches to the treatment of specific anxiety disorders;
- e-health: connected wristbands used in the treatment of sleep disorders and consumption of benzodiazepines.

1.2.2.4 HOMECARE SERVICES

To meet the expectations and needs of people temporarily or permanently unable to lead independent lives owing to health conditions or disabilities, the Group offers additional homecare services in France, Austria, Switzerland and Germany.

These services may be useful after a hospital stay or for the elderly, whether or not their independent living skills are impaired, and they provide personalised support tailored to their home. What people with declining independent living skills seeking to stay in their homes want most is to be able to attend to their daily needs, be able to go out and keep loneliness at bay. After an accident or illness, what they want most is to get back to where they feel at home.

ORPEA offers a range of services for the elderly keen to carry on living at home:

- housekeeping services, including cleaning, meals, ironing, gardening and household errands;
- daily life assistance services, including day or night supervision, assistance with hygiene tasks, meal-time assistance;
- movement assistance services, either on foot or in a vehicle.

The Group's qualified and experienced carers are able to provide in-home support either as required or on a regular round-the-clock, seven-days-a-week basis, in a manner tailored to the needs, habits and lifestyle of each individual.

1.2.3 A EUROPEAN NETWORK

ORPEA, now one of Europe's leading long-term care providers, had a unique network made up of **86,650 beds** in **818 facilities** across **twelve countries** in Europe, China and Brazil at 31 December 2017.

FRANCE

The ORPEA Group was founded in France in 1989. The French network now has 357 facilities (33,437 beds), and is made up of:

- nursing homes;
- post-acute and rehabilitation hospitals;
- psychiatric hospitals;
- senior assisted-living facilities.

ORPEA also provides homecare services through its DOMIDOM and Adhap networks.

ORPEA has pursued a development strategy of setting up new facilities and making selective acquisitions.

The Group's facilities are spread across most of France, and its footprint has been crafted to give it a presence in departments with a high population density, in or close to major cities, where demand is strongest.

The Group's facilities are thus concentrated in the Île-de-France (Paris and its outer western suburbs), Provence-Alpes-Côte, Aquitaine, Poitou-Charentes and Rhône-Alpes regions, where it has over 20 facilities per region.

BELGIUM

ORPEA Belgium has a network of 60 facilities with 7,443 beds, comprising:

- senior assisted-living facilities for those able to live independently;
- nursing and care homes for semi-able bodied, dependent and disoriented elderly people.

ORPEA first moved into the Belgian market in 2006 and has since actively pursued its expansion policy both by obtaining licences to open new facilities and by making acquisitions.

Over time, ORPEA Belgium has become one of the leading networks of facilities specialised in care for the elderly.

The majority of the facilities in Belgium are located in Flanders and Brussels, and, as elsewhere, most of its facilities are in town or city centres or close to large conurbations.

Since 2015, ORPEA Belgium has embarked on a major drive to open new facilities and to redevelop existing facilities. The new facilities will be large (150 to 200 beds) and built to a very high standard of quality. In many cases, they will provide a combination of nursing homes and assisted-living facilities, at locations in towns, cities and regions with high purchasing power.

SPAIN

ORPEA Iberica has a network of 47 facilities with 8,071 beds. ORPEA Iberica doubled in size in 2016 with the acquisition of the Sanyres group and other acquisitions of independent facilities.

ORPEA began its expansion into Spain in 2006 when it acquired Grupo Care. It then continued its development through selective acquisitions, building up a network of high-quality and attractive facilities. ORPEA is now a leading player in Spain, providing:

- high-quality care services for the elderly;
- protected units specially geared to the needs of elderly people with Alzheimer's disease;
- mental health care and support;
- modern facilities with a far higher percentage of single rooms than the average for Spain's long-term care sector;
- prime locations with a majority of its beds in Madrid, Barcelona and Valencia.

ITALY

ORPEA Italia's network of 1,736 beds in 15 facilities comprises:

- flexible residential facilities providing various types of specialised care for the semi-able bodied, including convalescence, stabilised psychiatry, and treatment for mental health and physical disabilities;
- medical residence facilities: nursing home facilities for patients with Alzheimer's disease and patients in a coma;
- psychiatric hospitals.

ORPEA opened its first facilities in Italy in 2004 and then grew primarily by opening new facilities.

The Group boasts a high-quality network in northern Italy (Piedmont and the Marches region), which stands out with its recently built, high-quality facilities offering almost exclusively private rooms.

SWITZERLAND

In Switzerland, ORPEA has a network of 34 facilities accounting for 3,340 beds, comprising:

- a psychiatric clinic in Nyon, acquired in 2006 and completely redeveloped since, which has 150 years' experience of treating mental health disorders;
- a treatment and rehabilitation centre for post-acute and rehabilitation care, built by the Group and opened in 2013;
- a psychiatric and rehabilitation facility due to open in Veyrier during 2018;
- combined nursing home and assisted-living facilities at a single location, following on from the acquisition of the Senevita network in 2014, which exclusively covers areas in German-speaking Switzerland (Bern, Zurich, Basel, Aargau, Solothurn and Fribourg cantons);
- a range of homecare and services delivered *via* the Spitex Ville et Campagne network, which operates across 25 cantons. Thanks to this acquisition in late 2016, ORPEA is now Switzerland's leading private network of care and homecare services for the elderly.

GERMANY

In Germany, ORPEA's network of 17,572 beds in 165 facilities is made up of:

- nursing homes;
- post-acute and rehabilitation hospitals;
- psychiatric hospitals.

ORPEA first established a presence in Germany in July 2014 when it acquired Silver Care, the leader in quality care for the elderly.

Since 2014, ORPEA has expanded in Germany by acquiring:

- Celenus-Kliniken, Germany's third-ranked operator of post-acute care, rehabilitation and psychiatric hospitals;
- Residenz Gruppe Bremen, a regional network of nursing homes, that complements Silver Care, expanding ORPEA's footprint in northern Germany;
- Vitalis, a regional network of nursing homes, expanding ORPEA's footprint in southern Germany.

In addition to these acquisitions, ORPEA continued to pursue organic growth in Germany. It has embarked on numerous projects to open new facilities, with 2,575 beds under construction and due to open over the next three years.

Its facilities in Germany are recently built, modern and boast some of the highest private room rates in the country at close to 80%.

AUSTRIA

ORPEA moved into Austria in January 2015 when it purchased the SeneCura Group, Austria's leading private-sector nursing home operator with an integrated range of services supporting people in their later lives and providing the care the elderly need:

- nursing homes;
- rehabilitation hospitals;
- homecare and services.

Pursuing the same approach as it does everywhere else, ORPEA has expanded SeneCura's network in Austria through selective bolt-on acquisitions, plus extensions and the opening of new facilities. In 2017, SeneCura extended its leadership position in Austria by acquiring Dr. Dr. Wagner, an operator of post-acute and rehabilitation hospitals and nursing homes.

SeneCura operates a network of 7,042 beds in 81 facilities.

CZECH REPUBLIC

ORPEA expanded into the Czech Republic through its acquisition of SeneCura, which was going ahead with three nursing home projects in the country when it was purchased. The first two facilities opened up in 2016, and have enjoyed great success in the country, where there is very little high-quality capacity.

SeneCura continued to expand in the Czech Republic, pressing ahead in 2017 with new plans to build nursing homes and purchasing Anavita, the country's leading private-sector nursing home operator, plus other selective acquisitions. SeneCura's network tripled in size in 2017, and it now has 17 facilities containing a total of 2,463 beds, making it the Czech Republic's leading operator.

POLAND

ORPEA expanded into Poland in January 2016 when it bought the MEDI-System group (704 beds). MEDI-System is Poland's leading long-term care facility operator, and its multidisciplinary long-term care offering includes nursing homes, post-acute care and rehabilitation hospitals.

MEDI-System boasts a high-quality network with large-scale, recently built facilities (100 beds on average) located mainly in Warsaw with a first-class reputation. Numerous plans to build new facilities were set in motion, and MEDI-System's network now boasts 18 facilities with 2,080 beds, representing an increase of 70%.

CHINA

In 2016, ORPEA opened a 140-bed facility in Nanjing, its first in China. This nursing home cares for highly dependent residents in high-end accommodation.

The facility provides a unique showcase for ORPEA's know-how in a country experiencing tremendous demand. As the first foreign group to open a high-end facility in China for elderly people requiring long-term care, ORPEA has gained an excellent reputation, attracting interest from major Chinese public- and private-sector investors. The Group plans to continue its development there while controlling its risk exposure by entering into joint venture agreements with leading Chinese groups, such as insurer Taikang and the HNA group, under which it would manage their facilities.

BRAZIL

ORPEA expanded into Brazil during 2017 together with the SIS group, with which the Group has a longstanding relationship. ORPEA and SIS set up a joint venture 49.9%-owned by ORPEA, which has an option to buy out the remainder of the share capital.

This joint venture has 2,185 beds under construction (13 nursing homes) in areas with high purchasing power such as São Paulo, Rio de Janeiro and Fortaleza. ORPEA aims to drive its expansion principally through the creation of new facilities so that it can help meet the very strong demand for long-term care, with high-quality accommodation almost totally non-existent at present.

PORTUGAL

ORPEA moved into Portugal in 2017 *via* a joint venture with the SIS group. ORPEA owns a 49.5% interest, plus an option to buy out the remainder.

At year-end 2017, 10 nursing homes accounting for 1,141 beds, were under construction in strategic locations in Lisbon, Cascais and Porto.

1.3 KEY PILLARS OF ORPEA'S BUSINESS MODEL

ORPEA's fast-paced expansion over the past 28 years, which is set to continue in the coming years thanks to the sector's robust fundamentals, has been underpinned by four constant key pillars:

- its core values of high ethical standards, respect, attentiveness, trust and a professional conscience;
- an unerring focus on quality through continuous improvements, which forms the basis for ORPEA's services;
- a centralised organisation to achieve efficiency and quality;
- a long-term real estate strategy geared towards ownership of a significant portion of the property portfolio.

1.3.1 STRONG CORE VALUES

Ever since its foundation, ORPEA has always aimed to deliver the highest standards of quality of life, care and accommodation to all its residents and patients.

As an operator providing services round-the-clock, seven days a week, ORPEA recognises that it will inevitably fall short of its high standards and make mistakes from time to time. Mindful of this, ORPEA and all its staff relentlessly and regularly pursue any scope for optimisation or improvements to the services delivered to residents and patients.

To secure its business over the long term and safeguard the interests of its patients and residents, and also of its employees, the Group established a series of commitments from the very outset underpinned by the core values of attentiveness, trust, respect, mutual assistance and professional conscience, which it adapts to every country where it operates based on specific national requirements.

Value has both a financial and a moral sense.

ORPEA believes it cannot create any value without core values guiding its actions and forming the basis of its corporate culture.

Its ability to invest in people to enhance relationships and ethical standards, rather than in purely technical knowledge, is paying off. The Group's reputation rests on basic values such as kindness, compassion, empathy, approachability and human warmth, which are equally important as its technical skills and expertise.

Satisfaction surveys underline the essential nature of these values, with comments from residents, patients and their families focusing on the kindness of staff at least as often as they do on the quality of care. To sum up, the primary source of Group's value is unquestionably the human warmth provided by its employees.

Since ORPEA's business largely consists of dealing with flaws when they arise on a daily basis, any points of criticism that come to light in questionnaires also represent potential areas of improvement for the Group. The Group's permanent quest for improvement is firmly anchored in its values.

HIGH ETHICAL STANDARDS ON A DAILY BASIS

An attachment to high ethical standards underpins all these values and guides the Group in the formulation of its quality policy and training programmes.

The code of ethics set out in the best practices handbook contains professionally designed and fully validated commitment charters.

While this approach has its merits, the number of staff members who actually read and take these guidelines to heart is open to question.

Mindful of this concern, the Group has embraced an original approach to developing ethical frameworks, which involves getting staff at each facility to produce their own code of ethics.

This approach began over 15 years, with the assistance of two independent consultants specialised in the ethics of healthcare. All teams are asked to choose values that seem to them to be most important in their job and for ensuring the well-being of the people in their care (such as respect, attentiveness, skills, mutual assistance, trust, professional conscience).

Five to seven of these values are selected by staff as the most important. The next step is to invite each staff member to attend group workshops at which participants draw up brief guidelines to explain each value, and then choose a picture or image to illustrate it.

This method of producing a code of ethics is opened up to all members of staff – cleaners, nurses, invoicing staff, receptionists, care assistants, waiting staff, doctors, chefs, directors and support staff. Overall, around 80% of employees attend on average 18 hours of ethical planning and analysis, representing around three hours per key concept/value.

Lastly, the results of this work are put together in charter form, which is displayed throughout the facility and formally adopted by all the staff.

New staff members are asked to read through and comment on the charter, with existing staff on hand to introduce it and provide context. Residents, patients and their families frequently comment in detail on these charters.

To some extent, ethics and values provide the real glue binding teams together at these facilities.

Once the staff at a facility have drafted, assimilated and firmly taken on board these values and ethics, their behaviour tends to be increasingly aligned with the principles laid down. This process is backed up by internal training modules on issues such as preventing mistreatment and abuse, and promoting the positive treatment of residents and patients, which are arranged on a regular basis.

In 2015, ORPEA set up an International Scientific and Ethics Council to entrench this approach and help foster a pragmatic culture of clinical ethics and innovation in caring. This Council is made up of leading European figures in the field of geriatrics, and its role is to answer ethical queries submitted by the Group's professionals.

1.3.2 QUALITY AT THE HEART OF DEVELOPMENT

For many years, ORPEA's quality-led approach has been a fundamental part of the Group's business, rather than actually being a regulatory requirement.

Because people are central to what it does, and because it believes that sustainable development cannot be achieved without quality, continuous quality improvements to its services and practices are central to the ORPEA Group's main strategic aims.

The ORPEA Group has implemented a pro-active and exacting quality policy in all its facilities.

The ORPEA Group's quality policy is predicated on:

- protocols and care procedures that are harmonised and continuously improved;
- satisfaction surveys;
- internal assessments and external appraisals;
- competitions and other awards;
- staff training.

The ultimate goal of all the quality procedures in place within the Group is to give each employee a clear sense of purpose, so that they can establish the bonds that are needed for high-quality care.

1.3.2.1 STRUCTURE OF THE QUALITY PROGRAMME

The quality department in each country reports to the Chief Operating Officer and works closely with the operating divisions and the headquarters functions.

The quality department's tasks are to:

- provide methodological support to facilities for the implementation and monitoring of their quality and risk management programme;
- support facilities with their external assessment processes (certification, accreditation)
- develop tools for:
  - training and assessment to improve team's knowledge,
  - planning and follow-up on procedures,
  - monitoring, such as scorecards, indicators, quality metrics;
- hold the Quality Awards;
- organise the annual satisfaction survey of residents;
- conduct audits, as a team training exercise, or to check on the quality of services delivered to residents/patients;
- keep track of regulatory changes and manage documentary resources as part of the quality, risk management or regulatory monitoring programme in relation to facilities' various activities.

The quality department provides facilities with support and advice on implementing the programme, monitoring and controlling the measures taken, and methodological assistance with devising tools to help manage the programme consistently across the entire Group.

Facilities are asked to produce a quality dashboard every month and send it to the quality and operations departments, and this helps to track the programme's continuous improvement process, so that any potential risks can be detected and prevented.

In France, this quality approach is driven by a team of over 20 people led by the Head of quality, working closely with the medical department.

Elsewhere, one or more quality officers have been appointed to oversee facilities' programme. The quality officers keep in close touch with the Group's quality department to ensure the Group's quality policy is applied consistently. This means verifying that values are respected and risks managed, in accordance with the local regulations.

For over 15 years, strict procedures – standardised across the network – have been implemented and are constantly evolving. These procedures are backed up by internal training in best professional practices (Alzheimer's disease, prevention of mistreatment, recommended movements and postures, safety, etc.), refresh and enhance teams' knowledge and share insights and experiences.

The monitoring and tracking of Group facilities by the quality department and medical department provide a secure environment for residents, patients and employees. As a result, all aspects of accommodation, comfort, care and safety can be controlled.

1.3.2.2 REGULAR FACILITY APPRAISALS

To track and verify progress made by the quality programme across the Group, internal assessments and external appraisals are carried out at all its facilities.

The benefits of the proactive quality improvement programme ORPEA has implemented since 1998 are plain for all to see in the results of external inspections of the Group's facilities.

Internal assessments

Internal assessments carried out by the regional departments, quality department, medical department and/or executive management, provide an opportunity to confirm that the Group's procedures have been taken on board and are applied and that protocols are perfectly grasped.

They also ensure that remedial actions taken are followed up properly over the long term.

External appraisals

External appraisals and certifications represent a source of transparency for residents and their families, guaranteeing that facilities honour their commitments concerning the consistency and quality of the services provided over time.

The quality approach is a continuous, never-ending process, of which certification is just one part, with its actions continuing over the long term.

Hospitals

In France, a compulsory external inspection is carried out at all health facilities (both public and private) by the Haute Autorité de Santé (HAS), an independent public authority with a scientific remit. It covers all of a healthcare facility's operations and practices and aims to ensure that safety and quality of care requirements are actually taken into account by the facility.

Certification requires effective participation by all a facility's professionals in a self-assessment process, which is based on the certification handbook published by the HAS and inspections by HAS experts. A multi-disciplinary steering committee is thus tasked at each of the Group's hospitals with monitoring the quality programme on a permanent basis.

As part of the certification process, health facilities have to report on their quality and risk management policy every 18 to 24 months through the quality account. HAS experts also carry out an on-site inspection every four years.

Satisfactory results have been achieved by the Group's hospitals that have already taken this certification. The HAS inspectors have highlighted some remarkable achievements at certain of the Group's hospitals as part of this process. These are presented as noteworthy initiatives in the certification reports.

In Germany, hospitals also have to undergo a mandatory certification process that meets standards approved by the BAR (*Bundersarbeitsgemeinschaft für Rehabilitation*). This certification has to be renewed every three years and is required to maintain a licence to operate. Annual inspections in the intervening years are also required.

In **Italy,** the accreditation process is carried out either by an approved inspection agency, the regional health department or an independent public authority, depending on the region.

In **Austria,** controls are carried out in hospitals by the health authorities in line with the regulatory requirements (*"Krankenanstalten – und Kuranstaltengesetz"* and *"Gesundheitsqualitätsgesetz"*).

In **Switzerland,** there are no specific requirements, but the hospitals have decided to achieve ISO 9001:2008 certification.

Nursing homes

In **France,** nursing homes are obliged to commit to continuously improving activities and service quality, which entails implementation of self-assessments and an external appraisal by an independent organisation.

Every five years, a nursing home has to carry out a self-assessment of its activities evaluating the actions it has taken and their impact on residents. The internal assessment is participation-based, with residents, families and professionals all taking part. The resources provided by the supervisory authorities (regional health agency and departmental council) under a tripartite agreement are contingent upon the results achieved and improvement projects.

In parallel, a nursing home must commission an external appraisal every seven years by consultants from outside the facility who have been approved by the ANESM (French national agency for the quality and assessment of nursing homes). The appraisers consider very carefully whether service users' rights have been upheld and whether the nursing home's actions are aligned with its facility plan. The results of this appraisal determine whether the facility has its operating licence renewed.

At 31 December 2017, all ORPEA Group facilities obliged to have external assessments had fulfilled this obligation by submitting their external appraisal reports to the supervisory authorities by the allotted deadline.

In **Spain,** AENOR, the international certification body approved by the Spanish health ministry, conducts a multi-site certification audit (after upgrades to comply with ORPEA recommendations and the UNE Standard – EN – ISO 9001:2015) subject to renewal every three years. It awards an accreditation certificate for public display in each facility.

The administrative headquarters and facilities are audited by AENOR's specialist auditors.

At the headquarters, the auditors run the rule over the procurement and HR processes as well as the quality policy and continuous improvement process.

The facilities undergo a full on-site inspection covering:

- compliance with the regulations and standards in all areas of the facility's activities;
- customer satisfaction;
- handling of compliance failures, follow-up on remedial and preventative measures;
- monitoring and internal training.

In 2017, all of ORPEA Iberica's sites had AENOR certification, and the Sanyres facilities acquired during the year also joined the programme.

In **Belgium and Switzerland,** quality audits are implemented by the supervisory authorities to confirm that the quality standards applicable in each region are applied properly.

These audits cover best practices in care for residents and make sure that an appropriate number of qualified staff are present for the elderly population being cared for.

In **Switzerland,** the care documentation is also audited by insurers (cantons and health funds). Likewise, an external audit conducted by the supervisory authorities covers health and safety aspects among others.

In **Italy,** an external appraisal is compulsory for all facilities, hospitals and nursing homes as part of an accreditation procedure. These appraisals encompass all aspects of a healthcare facility's operations and practices, and they aim to ensure that the safety and quality of care requirements are actually met by the facility. An overall score of 96% was achieved in 2017.

For nursing homes, the appraisal is carried out by an ASL (regional health agency) panel.

In **Germany,** all facilities undergo annual inspections by the medical services of health insurance funds. The MDK (*Medizinischer Dienst der Krankenkassen*) applies a methodology and framework defined in Book XI of the German Social Code and approved by the health ministry. These audits include a review of a sample of nine residents, with three taken from each level of care requirement (*Pflegestufe*).

To promote transparency in care quality for the elderly, a synopsis of MDK inspections is published for each nursing home in Germany and has to be displayed conspicuously in the facility. This transparency report (Transparenzbericht) includes an overall rating of between 1.0 (very good) and 5.0 (inadequate), plus specific scores for the following areas:

- personal care and medical care (up to 32 criteria analysed);
- care of dementia patients (up to nine criteria);
- entertainment and social life (up to nine criteria);
- accommodation, meals, cleanliness and hygiene standards (up to nine criteria).

The 53 Silver Care facilities inspected in 2017 had an average rating of 1.3 (very good).

Since 1974, the BIVA social welfare organisation has fought to defend the interests of individuals requiring help and care and living in a supervised facility. 22 facilities have signed up to a voluntary initiative strengthening residents' rights and helping them make their own decisions despite their age and disabilities. BIVA is an independent, not-for-profit social welfare organisation. It provides advice and information about quality of life in challenging nursing and service-related circumstances. The BIVA seal of quality is displayed conspicuously in the relevant residences.

In **Austria:**

- nursing homes are subject to an annual audit by the authorities (*Pflegeaufsicht*) covering respect for residents' rights, the quality of care provided, and compliance with health and safety standards in conjunction with the federal health ministry. The Austrian operations have gained a seal of quality (WHP quality certification) for their efforts to provide a healthy workplace (ÖNBGF). In recognition, they receive a plaque and a certificate for their business strategy, which aims to prevent occupational illnesses, enhance employees' health and improve their well-being;
- three "family-friendly organisation" (*Familien-Freundlicher Betrieb*) seals of approval from the federal ministry for families and young people;
- three "mobility-friendly senior facility" (*Bewegungsfreundliche Senioreneinrichtung*) seals of approval from the community group promoting sports and physical activities;
- the Styria Vitalis Gütesiegel seal of approval for promoting health and mobility, certifying that installations in the nursing homes and day centres deploy a mobility activation and support programme;
- ecofriendly *Österreichisches Umweltzeichen* 2017 certification informing consumers that purchasing decisions by one of its centres are guided by environmental protection considerations;
- annual *Verein Ökoprofit* certification for 2017, which was obtained by one of the facilities for its sustainable development policy.

The Austrian ministry for labour, social affairs and consumer protection has created a national quality certificate (NQZ), which is awarded to facilities that have implemented a genuine quality programme and meet the highest quality standards. SeneCura is actively involved in this certification process that takes around two years. Its aim is to secure certification for all its facilities over the next few years.

In the **Czech Republic,** the quality system has only just been started, and is due to be built up over the coming years. The quality-related obligations are laid down in the regional regulations, with inspections carried out by the city or municipal authorities.

In **Poland,** the external ISO 9001:2015 accreditation was achieved (after efforts to meet ORPEA recommendations and the ISO 9001:2015 standards) without any compliance issues being raised.

Homecare services

In France, ORPEA has set in motion the process of gaining Qualicert certification for its homecare services based on the SGS Services for individuals RE/SAP guidelines. This certification helps to build trust among customers and partners, since it provides evidence of:

- standardised practice across the network;
- the professionalism of its employees;
- services tailored to customer needs;
- a willingness to deliver improvements in response to customer needs.

1.3.2.3 ORPEA-CLINEA QUALITY AWARDS

To make quality a unifying management tool geared towards the well-being of residents and patients, the quality department decided to introduce the Quality Awards.

Quality is also a state of mind, and so these awards encourage all staff to stand up for a high quality of service and care, and to push continuously for further improvements.

These annual awards for internal participants are rated on external and internal regulatory requirements. The prizewinners are selected through a three-stage process:

- the quality department, the medical department and the regional department and/or divisions for hospitals are involved in selecting the finalists based on over 400 criteria;
- entries set aside at this stage undergo a control audit by the quality and medical departments;
- the quality and medical departments, plus a member of the senior management team (Chairman, Chief Operating Officer or Chief Financial Officer), use a different scorecard and scenario analysis to pick the eventual winners in the final round.

Each of the prizewinning facilities receives a budget allocation enabling them to launch a specific original or innovative project to enhance the care provided to residents or patients. This project is drawn up with input from all the facility's teams.

At an evening awards ceremony held in their honour, the winners receive a trophy and a prize, underscoring the value of their daily activities and providing a token of the Group's appreciation.

In 2017, the prizewinners in **France** were:

- 1st prize: the Saint-Saturnin-lès-Avignon nursing home (Vaucluse department) and the Brunoy post-acute and rehabilitation hospital (Essonne);
- 2nd prize: the Granville nursing home (Manche department) and the Montmorency psychiatric hospital (Yvelines department);
- 3rd prize: the Toulouse Crampel nursing home (Haute-Garonne department) and the Belloy-en-France post-acute and rehabilitation hospital (Val-d'Oise department).

In **Belgium,** the winners of the 2017 Quality awards were:

- 1st prize: the Closière Cornet nursing home in Villers-la-Ville;
- 2nd prize: the Adret nursing home in Gosselies;
- 3rd prize: the Paradis du Bouhay nursing home in Liège and Belle Époque nursing home in Knokke.

In **Spain,** the following nursing homes won the awards:

- 1st prize: San Fernando in Madrid;
- 2nd prize: Las Rozas in Madrid;
- 3rd prize: Alcobendas in Madrid.

In **Italy,** the following nursing homes received accolades:

- 1st prize: the Casières nursing home in Treviso;
- 2nd prize: the Richelmy nursing home in Turin;
- 3rd prize: the Asti nursing home in Asti.

In the other European countries where Quality Awards are not yet held, the numerous external awards received by the Group's teams is a testament to their quality.

In **Austria,** SeneCura was the nursing home operator that won most accolades in 2017:

- six facilities gained accreditation, with two more on the way: it obtained annual NQZ accreditation for the quality of both its care and its teams (NQZ, Best employer in Vorarlberg, quality of service, Promoting health in the workplace, etc.);
- seven facilities obtained Paincert GmbH national accreditation for their pain care;
- seven facilities adopted E-Qualin, an innovative and comprehensive quality management system for the elderly and their nursing care. It encompasses ethical attitudes and observance of values, such as dignity, honesty, tolerance, dialogue and conflict management, empathy, freedom, independent decision-making and personal integrity.

1.3.2.4 SATISFACTION SURVEYS

ORPEA regularly conducts satisfaction surveys to make sure that the quality of support and services delivered by the Group's facilities is aligned with the standards it sets. And the views of residents and patients of whether it does so are crucially important.

This type of benchmarking illustrates the Group's determination to meet the needs of residents and patients as effectively as possible and to give their views even greater attention.

At the Group's hospitals, patients are given a questionnaire as a matter of course upon admission or shortly before they are discharged. Feedback from these questionnaires is analysed every month to keep track of the areas of strength requiring further reinforcement and areas for improvement, and the results are then displayed.

In Germany, pension funds conduct their own satisfaction survey of their members, but this takes place several weeks after the patient has been discharged. That has prompted Celenus-Kliniken to solicit patients' views while they are still in its care.

The 2017 satisfaction rates stood at over 90% in hospitals.

The Group's nursing homes conduct an anonymous survey every year measuring the satisfaction level of residents and their families. This survey by the quality department acts as a satisfaction indicator and gives residents and their families the chance to rate all aspects of a facility's services, including the accommodation, care, meals, approachability and attentiveness of staff, and events & entertainment. This indicator was designed to solicit the full range of views since residents and their families complete and return questionnaires on an anonymous basis to the quality department. The forms are then analysed by an external company and the results certified as accurate by a court officer.

In all, 42,881 satisfaction questionnaires were sent out in 2017 to all the residents and their families at ORPEA facilities in France, Belgium, Spain, Italy, Switzerland, Austria, Germany, the Czech Republic, Poland and China.

28,284 questionnaires were returned and analysed, representing a response rate of 59.1% (an increase on the previous year's level of 58.1%). According to the results of the survey:

- 92.5% of residents and families are satisfied or very satisfied with the facilities' services;
- 93% of residents and families would recommend the Group's facilities to their friends and family.

1.3.3 STREAMLINED AND EFFECTIVE QUALITY-DRIVEN ORGANISATION

1.3.3.1 ORGANISATION STRUCTURE GEARED FOR INTERNATIONAL EXPANSION

In 2014, ORPEA embarked on a strategy of rapid international expansion, and over 60% of its network is now outside France, and to support this strategy, it overhauled its organisation structure to ensure close scrutiny of the roll-out of its model in new territories and to safeguard quality standards and management efficiency.

The Group aims to strike the right balance in its organisation structure between:

- the level of decentralisation needed to establish a local connection, adapt to specific national requirements and keep in touch with expectations;
- the level of centralisation the Group wishes to achieve so that it can unlock synergies and facilitate controls, benchmarking and communication.

As a result, the Group is now organised in business units, with one set up in each country.

Each business unit has its own management team (CEO, CFO, COO) and an administrative headquarters for the support functions, along similar lines to the French model. The local management team possesses in-depth knowledge of the national regulations, key contacts and robust experience of the economic, demographic and cultural issues in the country.

Each business unit has a free rein to manage its business plan as it sees fit and to arrange financing for selective development, with the approval and under the oversight of the Group's executive management.

It is also responsible for drafting and executing an annual road map for its operations and support functions, plus a strategic development plan.

In parallel, ORPEA has built a team of around 30 international managers, most of whom have come through its ranks, which gives them excellent knowledge of the Group's processes. These managers have been assigned to each corporate services support function, such as HR, quality, management control and finance, business development, purchasing, construction and legal affairs. The goal behind this approach is to make sure the Business Units harness a shared repository of Group practices and procedures and to oversee the operation of each international BU.

Coordinated by an international project leader, these international managers have established the key rules in their respective areas of responsibility that all BUs must apply to ensure that the Group is able to manage its risks (quality, financial, reputational, etc.), further entrench its quality programme, promote the free flow of information, conduct benchmarking and fulfil its regulatory requirements (especially given its status as a listed company). The Group Standards, which are supplemented by appropriate control arrangements, provide the business units with guidance on integration aspects and on the implementation of the Group's operating processes and procedures. The international managers are tasked with supporting all the BUs with the implementation of these Group Standards and ensuring that they are put into practice and upheld.

Their role is to set in motion, advise on, monitor and oversee the application of Group policies in each country and each area of expertise while adapting to the local culture and legislation.

The international managers can draw on their vast array of experience in their area of expertise. They also help to promote the integration of acquired entities and the flow of information within the Group.

1.3.3.2 A CENTRALISED ORGANISATION WITHIN EACH BUSINESS UNIT

Each business unit has its own well-organised headquarters providing the main support functions. This helps to relieve facility managers of administrative tasks, so that they are able to free up time and focus the bulk of their efforts on supporting residents and patients and on managing their teams.

Under this centralised system, costs can be pooled and efficiency gains unlocked in the operation of facilities, as well as in management control and finance.

The role of each country headquarters is to provide support and guidance and to draft and circulate the various procedures applicable using the latest methods so that facility managers and staff can focus their skills and expertise on the well-being of residents and patients.

Accordingly, the Group's organisation is underpinned by two main principles:

- centralisation of all corporate services at the BU headquarters (accounting, purchasing, payroll, legal, invoicing, etc.);
- an operational structure geared to making the core business as responsive as possible, while complying with the Group's management control and quality monitoring requirements.

1.3.3.3 GROUP IT AND INFORMATION SYSTEMS DEPARTMENT FORMING THE BACKBONE OF THE ORGANISATION

ORPEA's information systems department, which has over 100 employees, harnesses its vast array of skills to build and secure an information system that is genuinely tailor-made to manage and track the performance of the Group's organisation in France and around the world. This represents a vital tool for delivering continuous improvement in its performance.

The information systems department has been built to support the Group's international expansion, and it applies new methods to meet the imperatives of the core business and stay ahead of the game:

- it harnesses agile development and project management techniques to help ORPEA to shorten times to market and to maintain a close connection to actual usage in the field, while adjusting its approach to the maturity of its internal clients. Conventional development methods are still pertinent in certain circumstances, and so iterative cycles are used to avoid silo effects;
- by centralising certain activities, the information systems department is able to coordinate Group initiatives to roll out new developments and modernise tools and structures. This new organisation structure represents a major strength since it helps the Group to maintain the consistency of its information systems, enrich and streamline the application ecosystem and adopt the most efficient development approach possible in France and abroad.

ORPEA's information systems division is organised to meet three main priorities:

- strategic management (view provided by the information system aligned with the Group's priorities);
- functional management, which includes core business skills to ensure that IT systems are in lock-step with business imperatives;
- technical management, to deliver flawless quality standards in terms of production and through-life maintenance.

Make-or-buy decisions between existing IT solutions on the market, to speed up deployment or harness external skills, where appropriate, or internal applications that set the Group apart in specific business areas, form a continuous part of its work. Expert staff analyse the business needs, the deficiencies in the market systems and recommend the most suitable solution based on numerous criteria (functional coverage, response to the Group's technical requirements, business model, skill sets, ease of use, statutory compliance, *roadmap* and ability to innovate, etc.). These design phases help it to stay closely in touch with users' needs and to implement appropriate tools, and in turn this fosters employee buy-in to changes introduced across all the Group's international units.

Internal hosting to maintain control over and tighten up information system security

Given the rapid pace of its international expansion and the fact that many of its vertical applications have been developed internally, ORPEA wanted to be able to:

- roll out its management applications right across the Group where appropriate to unlock maintenance savings and reporting improvements;
- keep the tightest possible control over the information system, especially its data security;
- step up the oversight and controls on its various business units;
- meet the specific needs of users, both in France and everywhere else ORPEA operates;
- plan ahead for future requirements, in line with the Group's strategy.

To meet these imperatives, a new high-performance data centre was set up in 2015 when the Group moved into new corporate headquarters. This data centre houses all the information system's data and tools and delivers the highest possible level of application availability and continuity of operations, while offering a high standard of system security.

The Group opted to take internal data centre option rather than pursuing external hosting. Aside from the major savings, this option provides the flexibility and control needed to keep its data secure.

The data centre has a computer room with space for 40 bays, which builds in scope for a 150% increase in existing needs, or the equivalent of 10 years' development. It houses 250 servers and has a data storage capacity of 300 terabytes.

The data centre is linked up to a Network and Security Operation Centre, including a crisis management unit, right at the heart of the information system's offices.

The additions to the monitoring arrangements and administration system provide finer-grained supervision of IT production. Like the data centre, this area will be subject to strict security arrangements so that it can operate round-the-clock, seven days a week.

The information systems division and the data centre gained ISO 27001 certification in 2016.

Technology watch to harness the latest innovations and tighten up data security

The information systems division has stepped up its technology watch to keep pace with the latest developments in areas as diverse as e-health, the internet of things, business intelligence, new development models (DevOps, etc.). It is also placing greater emphasis on data security and protection. Its security unit and data protection officer oversee data security and confidentiality arrangements across the projects and applications rolled out.

Going forward, the ability to master new technologies, maintain privacy by design and achieve regulatory compliance will be top priorities.

The Group has made data security a major point of emphasis. The manner in which data concerning its patients, residents, employees and customers is used and protected reveals the value placed by the Group on the direct and indirect users of its information systems.

1.3.4 REAL ESTATE: A STRATEGIC ASSET

Ever since its inception, ORPEA has always placed great importance on its overall real estate strategy, and this extends to:

- the quality of properties built and maintained by the Group;
- the quality of locations at the heart of cities and close to major urban centres;
- the internal architecture and project management unit, which designs buildings specially geared to the core business;
- ownership of a large proportion of its premises.

1.3.4.1 QUALITY BUILDINGS IN ATTRACTIVE LOCATIONS

Real estate represents a strategically important asset for the Group's business activities. ORPEA selects sites based on their intrinsic quality, which includes the site's quality and its location. Most of the Group's facilities are situated in town or city centres or in remarkable surroundings, and the aim is always to foster close ties with families and referring doctors, as these are essential for a high standard of care.

A study conducted in 2011 by DREES (Study no. 18 – Institutional living accommodation for the elderly from the perspective of residents and their families) of residents and their relatives illustrated the benefits of this strategy. It highlighted that the number one selection criterion applied by residents and their families is a facility's location (69%).

In France, the Group's assets are in most cases located in buoyant regions, such as Île-de-France (Paris and the western suburbs), Provence-Alpes-Côte d'Azur (Mediterranean coast), Aquitaine and Poitou-Charentes. In Belgium, the majority of the network is in Brussels and Flanders, and over 50% of the Spanish network is in Madrid. The Italian network solely covers the north of the country, and the Polish network is concentrated in Warsaw.

In addition, the Group pays particular attention to:

- the architectural quality of buildings: the Group has built a large proportion of its properties, which means that it can design its facilities to meet its own quality-driven standards;
- the quality of internal services;
- compliance with environmental standards and the quest for energy savings.

1.3.4.2 STRATEGY OF REAL ESTATE OWNERSHIP

For many years, ORPEA's real estate strategy has been to retain ownership of a larger proportion of its properties to:

- keep a tight grip on its operating properties so that it can provide the highest quality of service while maintaining the flexibility to carry out any work needed;
- increase the value of the Group's asset portfolio with the addition of recently constructed assets in prime locations;
- underpin ORPEA's profitability in the medium to long term;
- endow ORPEA with financial security and flexibility in the form of assets that are not prone to volatility and readily marketable.

Since 2015, it has endeavoured to raise its real estate ownership rate by acquiring the properties it operates, by selling fewer properties and by focusing its acquisition policy on opportunities with scope for gaining ownership of properties. As a result of this strategy, it raised its real estate ownership rate to 45% at year-end 2017 from 32% at year-end 2014.

Its portfolio contains high-quality properties constructed recently in attractive locations that generate secure rental income since ORPEA is its own tenant, which eliminates the vacancy risk.

This strategy of owning part of its real estate benefits the Group in several ways:

- it underpins its profitability and secures its long-term cash flows;
- it gives it greater flexibility to go ahead with extensions or redevelopments, without increases in property costs;
- it strengthens the Group's balance sheet;
- it increases the Group's portfolio value.

ORPEA's balance sheet at 31 December 2017 has €5,042 million in real estate assets (including assets under construction) adjusted for the €33 million in assets in the process of being sold. This represents an increase of €917 million over 12 months.

All operating properties are carried at fair value. Assets under construction are measured at the cost of construction plus the land at cost.

The Group's real estate portfolio is financed by long-term loans and by property leases.

The Group is a lessor under several property leases.

Lease financing is the Group's preferred method because it gives it the option of acquiring ownership of the property after 12 to 15 years in return for a modest residual payment.

As a result, the Group regularly acquires ownership of several lease-financed properties.

Lease financing will also enable ORPEA to plan ahead for application of IFRS 16 with effect from 1 January 2019. Under this new standard, property held under all ordinary leases will have to be recognised as assets with a corresponding financial liability at a value reflecting the right of use. As a result, operating leases will be recognised in a similar way to finance leases. Even so, under a property lease, the Group still has the option at the expiry date of the lease to acquire full ownership of the property on favourable terms by exercising the purchase option.

Even though property lease financing leads to the recognition of an asset (property) and liability (financial liability) on the balance sheet, it undoubtedly still creates value, and that is why ORPEA has resolutely maintained this policy.

It is a strategy that enables the Group to optimise its capital structure, while keeping the overall cost of its real estate under control.

This strategy also gives the Group the option of selling real estate assets in several different ways, allowing it to maintain its pace of expansion and keep its finances in a healthy condition:

- sale in lots to individual investors;
- direct sales of entire properties to real estate investment companies, family offices or institutional investors, such as insurers, which are always looking for secure long-term returns. Indeed, insurers and particularly life insurers have shown a strong appetite for the Group's assets;
- where necessary, a sale to the ORPEA Group's property investment fund (Amundi Immobilier Novation Santé OPCI), which was approved by the AMF on 28 November 2008.

Irrespective of the buyer, ORPEA's strategy is to secure attractive terms from asset disposals to keep a tight grip on its rental costs over the long term – with a low initial yield and, crucially, a tight control on index-linked increases.

With rental properties, commercial leases generally require the Group to bear the cost of work covered by Article 606 of the French Civil Code. This means that it has control of the work and can thus guarantee the quality of its services.

1.4 A SECTOR WITH HIGH BARRIERS TO ENTRY BUOYED BY GROWING DEMAND

The long-term care sector already plays a crucial role in rising to the challenges posed by the ageing of the global population, the need for medical care and a higher degree of specialisation, and the inadequacies of existing nursing home capacity. And its importance is set to grow over the coming decades.

The long-term care sector is governed by a stringent regulatory framework to ensure that patients and residents receive a high standard of care guaranteeing their safety and well-being and to keep the lid on health expenditure. This regulatory burden represents a major barrier to entry for newcomers.

Together, these characteristics, common to most countries across Europe, represent powerful growth drivers for industry participants.

1.4.1 SUBSTANTIAL DEMAND, YET INSUFFICIENT SUPPLY

1.4.1.1 DEMAND UNDERPINNED BY AN AGEING POPULATION

Medical advances and higher living standards have pushed up life expectancy in most countries around the world, and this has given rise to population ageing.

Between 1997 and 2012, life expectancy at birth increased by 3.5 years on average in the EU, according to Eurostat's latest statistics, which represents an increase of around three months every year.

This trend is continuing, and most of the gains show up after the age of 65. According to the latest European Union surveys, EU citizens who reach the age of 65 now have a life expectancy of 83 (men) or 86.4 (women), which represents an increase of over one year since 2005.

Progress made in tackling cardiovascular diseases in people aged 65 or over and also lower mortality rates in adult men have been the key factors behind this increase.

An older population is the inevitable consequence of these developments, and the trend is set to accelerate right across Europe, as the second generation of baby boomers, born in the years following the Second World War, moves into this age bracket.

According to Eurostat, the population of over 80s is set to more than double from 24 million in 2015 to 53.5 million by 2050 – an increase of close to 30 million people.

And by 2080, the population share accounted for by the over 80s is forecast to double at least in nearly all the Member States according to Eurostat. According to population forecasts, the EU's population will continue to age. By 2080, nearly one person in eight is expected to be 80 or over years old (*i.e.* 12.3% of the population).

As stated in the table below, all the countries in which ORPEA has established a presence are experiencing identical trends.

	Number of people aged 80 or over *(in thousands)*					2016-2030	2016-2050	
	2016	**2020**	**2030**	**2040**	**2050**	**Change** *(%)*	**Change** *(%)*	**CAGR**
Germany	4,924	5,911	6,522	8,390	10,917	32%	122%	2.4%
Austria	450	496	662	838	1,152	47%	156%	2.8%
Belgium	633	649	797	1,067	1,310	26%	107%	2.2%
Brazil	3,246	3,958	6,268	10,466	15,525	93%	378%	4.7%
China	23,642	26,830	41,258	72,335	119,706	75%	406%	4.9%
Spain	2,800	2,910	3,588	4,727	6,259	28%	124%	2.4%
France	4,102	4,274	5,517	7,065	8,068	34%	97%	2.0%
Italy	4,292	4,769	5,788	6,969	8,852	35%	106%	2.2%
Poland	1,587	1,698	2,143	3,262	3,154	35%	99%	2.0%
Portugal	633	686	851	1,060	1,274	34%	101%	2.1%
Czech Republic	438	450	702	840	905	60%	107%	2.2%
Switzerland	426	464	655	851	1,161	54%	173%	3.0%
European Union	28,199	30,524	37,804	47,984	58,470	34%	107%	2.2%

Source: World Bank database.

The acceleration in the ageing phenomenon will be even more acute among the very elderly (aged 90 or over). This population cohort is forecast to increase by close to 10 million by 2050, with its ranks tripling in size.

An identical trend of rapid growth in the very elderly is also anticipated in the short term, with a forecast increase of over 20% between 2015 and 2020 in the European Union.

	Number of people aged 90 or over *(in thousands)*					2015-2030	2015-2050	
	2015	2020	2030	2040	2050	Change *(%)*	Change *(%)*	CAGR
Germany	689	856	1,397	1,486	2,198	103%	219%	3.4%
Austria	73	86	115	161	227	58%	211%	3.3%
Belgium	95	120	155	211	296	63%	212%	3.3%
Spain	451	589	738	1,043	1,442	64%	219%	3.4%
France	719	907	1,125	1,657	2,150	57%	199%	3.2%
Italy	666	831	1,149	1,456	1,826	72%	174%	2.9%
Poland	188	273	388	588	975	106%	417%	4.8%
Portugal	82	103	156	207	278	89%	237%	3.5%
Czech Republic	51	65	86	170	205	69%	303%	4.1%
Switzerland	50	82	109	169	234	118%	368%	4.5%
European Union	4,248	5,303	7,353	10,100	13,657	73%	221%	3.4%

Source: Eurostat database.

Population ageing naturally drives up the number of elderly people requiring assistance or care. Care requirements tend to increase rapidly from the age of 80 upwards, reaching a critical threshold at 85. The percentage of people with the greatest care requirements (mental health and severe physical conditions) is highest among the 85 and overs. The 60 to 74 age bracket has the highest prevalence of people with mental health but less severe physical conditions.

1.4.1.2 INSUFFICIENT AND INADEQUATE CAPACITY

The increase in the number of people aged over 75 has already had a clear effect on the nursing home bed per person aged over 75 ratio in France. This ratio has fallen significantly over the recent decade. From 166 beds per 1,000 people aged over 75 in 1996, the number of beds dropped to 140 per 1,000 by the end of 2003 and then to 122 by the end of 2010.

The key factor behind the fall in this ratio is the far more rapid increase in the population aged over 75 (14% between 2004 and early 2008) than in the number of beds in facilities (source: DREES – *Études et Résultats* – no. 689 – May 2009, and FHF Note – September 2012).

A similar trend is evident across all the countries, with the ratio of nursing home beds to the elderly population declining over the past ten years.

Bed numbers per 1,000 over-80s in 2015 were as follows:

	Number of nursing home beds	Beds per 100 people aged over 80 years
France	590,000	14%
Belgium	137,000	22%
Spain	375,000	13%
Italy	390,000	9%
Switzerland	93,000	22%
Germany	900,000	18%
Austria	70,000	16%
Czech Republic	52,000	12%
Poland	85,000	5%
China	-	-
Brazil	100,000	3%
Portugal	80,000	13%

These clear-cut trends show exactly why new nursing home beds need to be added across all European countries over the next 20 years. Estimates of the new beds required vary from country to country:

- **In France,** industry professionals estimate that 25,000 new beds will need to be added by 2025. What's more, a large part of the existing stock will need to be redeveloped because it is ageing and is now unsuited to looking after those with major care requirements. In its December 2011 report on investment in nursing home facilities, the CNSA, (*French National Solidarity Fund for Autonomy*), estimates that 116,900 beds require modernisation, or around 20% of available capacity nationwide in the sector. Based on the current average cost of modernising one bed, which the CNSA puts at €100,000, this would require a €11.7 billion investment.
- In **Belgium,** ministry projections indicate that 45,000 additional beds will be needed by 2030 and 130,000 by 2050, *i.e.* a doubling of current capacity by 2050. Most of these new beds will be needed in the Flanders region.
- In **Spain,** there is also a very significant shortage of high-quality nursing home beds. In a 2010 report, the World Health Organisation estimates the requirement for new beds at 50,000 by 2030.
- **Italy** already has one of the lowest ratios of nursing home beds per capita in Europe. As a result, its needs are among the most substantial in Europe. Experts estimate that it will have to add 80,000 beds by 2030, or over 5,000 new beds p.a. Italy also needs to redevelop a large proportion of its existing stock, and this, too, requires heavy investment.
- **Switzerland** needs to almost double its existing capacity by 2030 by opening around 70,000 new beds owing to its rapid population ageing. And there will be no let-up in the longer term, with a further 40,000 additional beds forecast to be needed between 2030 and 2040.
- In **Germany,** 100,000 new beds will have to be added by 2025, the largest number in Europe, according to the Federal Statistical Office of Germany. By 2030, the total requirement for Germany rises to 250,000, if it is to face up to the challenge posed by its ageing population. As in most countries, it will also need to redevelop its existing facilities, particularly those run by independent private operators, or around 30% of the sector accounting for some 275,000 beds in over 4,000 facilities.
- In **Austria,** where the same ratio stands at 16%, an estimated 30,000 places will need to be created by 2030 – a 47% increase in existing capacity.
- In the **Czech Republic,** only 30% of existing capacity is suited to caring for dependent residents, including those with neurodegenerative illnesses. According to the Czech ministry of labour and social affairs, over 50,000 applications to facilities by potential residents are declined. The number of new beds that need to be added by 2030 is estimated at 80,000.
- In **Poland,** where the beds to elderly population ratio stands at just 5%, an estimated 120,000 places will need to be created by 2030 – a 2.5-fold increase in existing capacity. Poland's ratio is the lowest in Europe.
- In **Brazil,** there are just 100,000 beds available in 3,500 facilities, representing a beds to elderly population ratio of just 3%. Given that the country's population of over 80s is forecast to grow fivefold by 2050, an additional 300,000 new beds will be needed by 2030.
- In **Portugal,** the number of new beds that will have to be built by 2030 is estimated at 50,000 given the shortage of facilities caring for those with significant long-term requirements and the forecast doubling in the population of over 80s by 2050.

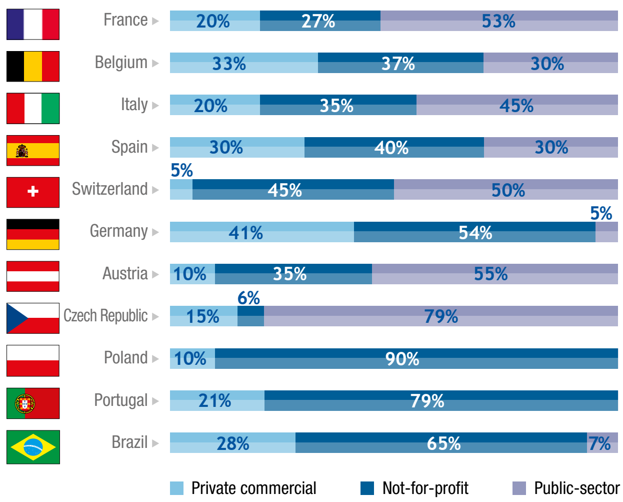
Investment running into tens of billions of euros will be required to meet these needs at a time of fiscal austerity across most European countries. The private sector has the ability to rise to the challenge, however.

1.4.2 OVERVIEW OF THE SECTOR

The long-term care sector has similar characteristics in all the European countries in which the Group operates:

- it is dominated by public-sector and non-profit operators, which account for between 60% and 90% of existing beds;
- the private commercial sector remains highly fragmented, with numerous independent operators with ageing premises, requiring consolidation over the next few years;
- a number of pan-European groups, such as Korian, ORPEA, Domus Vi and Attendo (presence confined to Scandinavia).

BREAKDOWN OF BEDS BY COUNTRY AND TYPE OF OPERATOR



The private commercial sector accounts for between 5% and 40% of beds in the countries in which ORPEA operates, giving it a major advantage in terms of the solvency of demand.

ORPEA's market share remains below 5% in each country, and so it has ample scope for further expansion in coming years.

The private commercial sector is still heavily fragmented across the board, and so a round of consolidation is likely, causing the share of independent operators to decline over the next few years.

In France, for example, the top five operators (Korian, ORPEA, Domus Vi, Le Noble Âge and Colisée Patrimoine) account for 55% of the private commercial sector, which has 120,000 beds. That leaves around 40,000 beds in the hands of independent operators.

In Belgium, the top four operators nationwide (Senior Living Group owned by Korian Medica, ORPEA, Armonea and Senior Assist) have a combined share of just 35% of the private commercial sector.

In Germany, the ten groups with over 4,000 beds have a combined share of just 21% of the private commercial sector. As a result, around 275,000 beds, or over 30% of the sector's total capacity, are owned by small regional groups or independents.

In Spain, the top 10 private-sector groups account for just 10% of the total number of nursing home beds.

In Switzerland, Poland and the Czech Republic, independents and small family groups with a few hundred beds still account for the vast majority of the private sector's capacity.

1.4.3 GROWING NEED FOR MEDICAL SERVICES AND FACILITY SPECIALISATION

1.4.3.1 GREATER MEDICAL NEEDS IN NURSING HOMES

The growing care requirements of nursing home residents is a trend evident across most European countries. In France, for example, according to the December 2014 DREES report, women accounted for 75% of residents. The average age of residents entering an institution is 89, compared with 82 in 1994.

The average stay is 18 to 20 months, compared with around 3 to 3.5 years 20 years ago. These changes are attributable to the development of assistance that helps people to stay in their own homes. Most European governments have invested heavily to expand homecare services in response to demand from society. While most elderly people are able to live at home, some have no choice but to move into a facility. Experts estimate that 85% of people aged 85 are able to live at home with a varying level of support, but that 15% need residential care. Above the age of 85, there is a rapid increase in this percentage.

Alzheimer's disease is the most common cause of dementia in the elderly, and it accounts for over 70% of dementia cases in France. It is also the main reason why people move into a nursing home. Currently, some 50% to 70% of people living in a nursing home for the elderly have the early signs of or have been diagnosed with dementia.

The care requirements of nursing home residents are therefore increasing right across Europe.

As things stand, residents are moving into facilities increasingly later in life, and with greater care requirements, and so nursing homes require more extensive medical services. This includes a need for a multidisciplinary nursing team and also the introduction of specialised units caring for residents with Alzheimer's disease providing higher levels of security.

In turn, this greater demand for medical services translates into a need for more medical equipment and more qualified nursing staff. The sector and, crucially, residents have benefited from an improvement in the quality of care. Quality controls and standards have also been tightened up by the supervisory authorities across all European countries.

Private groups stand at a major advantage when it comes to making these investments and the overriding imperatives of quality control and standards compliance because of their investment capacity and their organisation.

1.4.3.2 SPECIALISATION OF POST-ACUTE AND REHABILITATION HOSPITALS

The typical profile of post-acute and rehabilitation hospitals' patients has also changed.

The percentage of elderly patients admitted to post-acute and rehabilitation hospitals has risen sharply in recent years. In France, patients at post-acute and rehabilitation hospitals are most likely to be aged 70 or over. In 2011, they accounted for over half of post-acute and rehabilitation stays, *i.e.* 700,000 stays by nearly 535,000 people. Half of them are aged 80 to 89 (source: DREES – *Études et Résultats* – no. 943 – December 2015).

In addition to the population ageing phenomenon, a structural downtrend across all countries in the length of stays in medical, surgical and obstetric facilities is at work as a result of changes in:

- medical and surgical practices, particularly the development of outpatient surgery;
- the pricing system which, to improve productivity, has switched over from a per diem rate for hospitalisation to a rate per type of intervention.

As a result, medical, surgical and obstetric facilities send out their patients to post-acute and rehabilitation hospitals increasingly rapidly, which means these have to deal with patients in more and more severe conditions.

Governments across Europe are also encouraging this trend, since the cost per day of post-acute and rehabilitation care is far lower than medical, surgical and obstetric care for health insurance systems. For example, the estimated cost to the French health insurance system of a day in a post-acute and rehabilitation hospital is €120 to €130, compared with €500 to €800 per day in a medical, surgical and obstetric unit.

Post-acute and rehabilitation hospitals have become the primary and indeed a critical follow-on link in the care chain for hospitals and medical-surgical units. These have an average stay of 5.7 days (or even 4.5 days in the private sector) compared with an average of around 31 days at post-acute and rehabilitation hospitals and 56 days in psychiatric hospitals (source: DREES – *Panorama des établissements de santé* – 2014 edition).

Medical, surgical and obstetric facilities have thus had to review their downstream activities, and so they have entered into industry-wide agreements with post-acute and rehabilitation hospitals to secure places for their patients quickly.

As a result of the growing care burden placed on them and their closer ties with the acute care services provided at medical, surgical and obstetric units, post-acute and rehabilitation hospitals are able to provide complex rehabilitation as they now have multidisciplinary medical, paramedical and social care teams.

Accordingly, post-acute and rehabilitation hospitals are becoming increasingly specialised, providing care for certain specific conditions.

1.4.4 A REGULATED AND CONTROLLED SECTOR OF ACTIVITY

Owing to the nature of its business activities, which involves running facilities for the elderly requiring long-term care, post-acute and rehabilitation hospitals and psychiatric hospitals, the ORPEA Group operates in a closely supervised and highly regulated environment.

Over the past 26 years, the Group has developed a robust understanding of this complex regulatory environment and acquired the expertise and put in place the requisite procedures to operate in it successfully. The Group regards this environment as an opportunity and as a strength since it favours experienced operators such as ORPEA and represents a major barrier to entry preventing newcomers from moving into its markets.

Traditionally, the ORPEA Group has prioritised expansion into countries in which a licence to operate long-term care facilities is required from a supervisory authority.

In France, Spain, Belgium, Italy, Switzerland Austria and Poland, an administrative permit from regional or national authorities is required before any new healthcare facility can be set up, converted or extended. The number of new permits issued in these countries is tightly controlled and restricted by the public authorities in an effort to ensure a decent standard of care and services and to keep spending under control.

The process of gaining a permit and the regulatory framework vary from country to country, or even from region to region, in certain countries. As a result, it is crucial to have well-respected local teams on the ground with the requisite knowledge.

ORPEA has also expanded into other countries, including Germany, where no administrative permit is required in the strict sense of the term. Instead, the supervision of activities by the public authorities gives rise more indirectly to the definition of standards and checks by the authorities to ensure they are upheld.

In addition to administrative permits, strict technical, construction, safety and environmental standards apply in the sector. Minimum nursing and non-nursing staff to residents and patients ratios also have to be observed. Compliance with all these standards is closely monitored in all European countries by various national or local supervisory authorities.

1.4.5 CONTROLLED PRICING SYSTEM

Long-term care facilities' pricing is controlled across all European countries in a bid to keep a grip on public healthcare spending. Per diem rates have two main components:

- a component that broadly consists of care and medical expenses, which is usually funded by the public authorities, national or regional health insurance system, national long-term care insurance, etc.;
- a component that broadly consists of the cost of accommodation, meals, entertainment or additional residential services, which are usually paid for by the resident or patient themselves or covered by private insurance systems.

Owing to its complexity, this pricing system, which varies from country to country and even from one region to another, represents another barrier to entry for newcomers.

FRANCE

The pricing system for nursing home facilities has three components:

- the accommodation charge, payable in full by the resident (or the departmental authorities, if the facility has approved social assistance beds). Increases in accommodation charges are subject to government control. Every year, the French ministry of finance sets the size of the annual increase payable by residents from 1 January. That said, the accommodation charge may be freely agreed for any new residents;
- the charge for long-term care requirements is funded by the personal autonomy allowance (APA, or *allocation personnalisée d'autonomie*), which covers part of the cost based on the elderly person's care requirements and means;
- the personal care charge, which is a per diem rate funded by the French national health insurance system, paid in monthly instalments to the facility in the form of a lump sum.

The charges for post-acute and rehabilitation and psychiatric hospitals are set by the French national health insurance system, which pays a per diem fee for each patient cared for that covers the cost of all medical care, personal care, medicines and accommodation based on a two-bed room. Changes to this flat-rate charge covering all the related costs are regulated and controlled. In addition to the per diem allowance paid by the French national health system, facilities may levy additional charges for residential services such as private rooms, television, telephone, Wifi, or other services. These additional charges are paid directly by patients, and they may apply for reimbursement of all or part of the cost from their mutual health insurer. These charges may be changed freely.

BELGIUM

Nursing home charges have two components:

- the accommodation charge, payable in full by the resident. Accommodation charges are set by prior application to the SPF Economie government department. Following the ministerial decree of 12 August 2005, nursing home facilities cannot apply for a rate increase without first submitting a request, including substantiated arguments for the increase. As such, changes in charges are regulated and controlled;
- the medical care allowance, which is funded by the national disability insurance system (INAMI) based on the number of residents and their care requirements.

ITALY

The pricing system is regional, with each region having complete autonomy. For example, the Marches region calculates the extent of each resident's care requirements and awards the facility a care services allowance. In other regions, the local health authority (ASL) gives the future resident a voucher granting access to an accredited facility depending on the availability of places under the scheme.

SPAIN

Accommodation and care charges may be freely negotiated in Spain and are payable in full by residents.

In certain cases, nursing homes and the regional supervisory authorities enter into agreements primarily to reserve a certain number of beds for people with long-term care needs who have applied for assistance or full or partial coverage of the care. Under these agreements, charges are set in advance, and any changes have to be approved.

SWITZERLAND

The medical care allowance covers around 30% of the per diem charge, which is based on the care requirement, and is covered by the national health insurance system or by private insurance. The remaining balance, which covers accommodation, services and care requirements, is paid for by the resident or their family, or in part by the canton if the resident cannot afford the full amount. This part of the fee may be increased without any approval being required.

GERMANY

Nursing home charges have three main components:

- a real estate component, known as the investment cost, which covers the rent or the property investment needed to construct and maintain the building. Part of this component is paid for by the local authorities in respect of social assistance recipients or by residents;
- the charge for meals and residential services, which is paid for by the resident or their family;
- the medical care and personal care charge, the vast majority of which is paid for by the national health insurance system. This system of financing is secure, since it has a surplus of around €5 billion after the funding system for long-term care was reformed several years ago in Germany. The allowance varies based on the resident's care requirements and also from region to region. Increases in charges are agreed annually with the local supervisory authorities.

The charges for post-acute and rehabilitation hospitals and for psychiatric hospitals are based on per diem rates. They are agreed with the various health insurance and/or pension funds and they vary within a single facility based on resident's conditions and insurance. Likewise, special charges apply for private-sector patients. Broadly speaking, the per diem charges covered by pension funds are higher than those paid for by the national health insurance system owing to the importance of getting people back to work.

AUSTRIA

Nursing home charges have three components:

- accommodation costs paid for by the residents;
- costs of care;
- any supplements paid by private residents.

Similarly to Germany, long-term care insurance covers a portion of the care costs based on a single national sliding scale linked to the resident's care requirements. In addition, if a resident does not have sufficient income, the payment may be covered by welfare benefits. Where this applies, the full per diem rate is charged to the state authorities, which then recover the outstanding amount from the resident.

Every year, the state authorities set the amount by which charges may increase, usually indexed to consumer price inflation. Larger increases may be agreed, but this requires detailed justification.

CZECH REPUBLIC

Nursing home charges have four main components:

- a basic charge covering the accommodation payable by residents and their families;
- the personal care charge, which is paid for by the authorities;
- medical care costs, which are covered individually by the national health insurance system;
- additional services providing higher standards of quality, which are paid for by residents or their families.

POLAND

There are two types of beds in Poland:

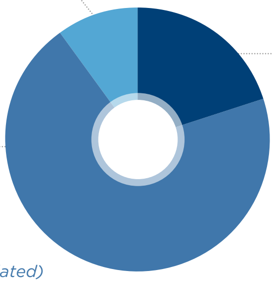
- authorised beds operated under a licence granted by the NFZ (national health fund);
- authorised beds run by private commercial operators.

The cost of private commercial beds is paid for in full by residents or their families, while the cost of NFZ beds is partially covered by the public sector. The NFZ agreement provides for full or partial reimbursement of medical care costs.

Accommodation costs are borne by the patient or their family. The average per diem charge is thus covered by a combination of reimbursements from the NFZ, the local authorities and the private contribution by families.

▶ SYNOPSIS OF NURSING HOME PER DIEM RATES

France



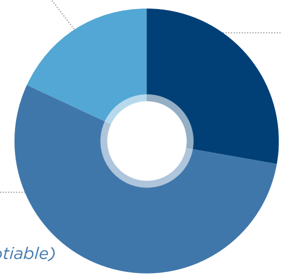
10%
Long-term care

20%
Personal care
National health insurance

70%
Accommodation/ Services
Resident
(pricing freely negotiable for new residents, then regulated)

Average per diem rate: **€110**

Switzerland



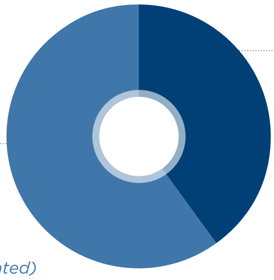
18%
Long-term care
Resident
(pricing freely negotiable)

28%
Personal care
National health insurance and private insurance

54%
Accommodation
Resident
(pricing freely negotiable)
Or Canton

Average per diem rate: **€240**

Belgium

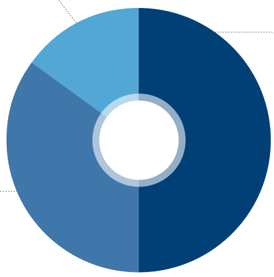


40%
Personal and long-term care
National health insurance (INAMI)

60%
Accommodation/ Services
Resident
(pricing freely negotiable upon opening, then regulated)

Average per diem rate: **€110**

Germany



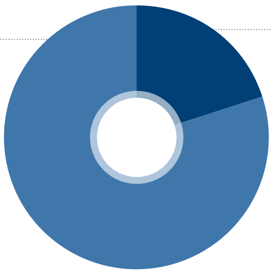
15%
Rent
Local authority

50%
Personal and long-term care
Public long-term care insurance regime

35%
Food/Services
Resident or Welfare state

Average per diem rate: **€100**

Spain

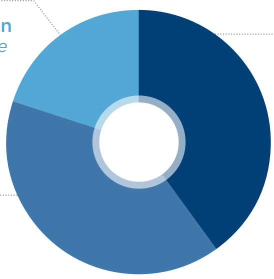


80%
Personal care/ Accommodation/ Services
Resident
(pricing freely negotiable)

20%
Long-term care
Region

Average per diem rate: **€55**

Austria



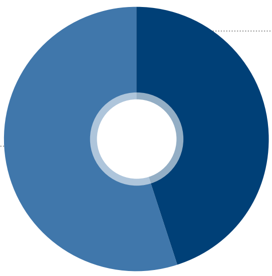
20%
Paid by the Region
(if resident's income not sufficient)

40%
Paid by the public long-term care insurance regime

40%
Paid by resident
(pension or Investment income)

Average per diem rate: **€120**

Italy

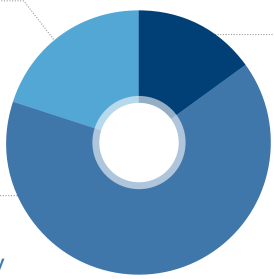


45%
Personal and long-term care
Regional health insurance

55%
Accommodation/ Services
Resident
(pricing freely negotiable)

Average per diem rate: **€90**

Czech Republic



20%
Long-term care

15%
Personal care
Public long-term care insurance regime

65%
Accommodation/ Services
Resident or family

Average per diem rate: **€45**

2.

Management report for the 2017 financial year

This management report covers the Company's activities and those of its Group during FY 2017. The accompanying Chairman's report complements all the stated sections. The Board of Directors has presented its explanations for the draft resolutions to be submitted for shareholders' approval at the Annual General Meeting in a separate report.

2.1 OVERVIEW OF FY 2017

In 2017, ORPEA continued to pursue its strategy of development and international expansion. It acquired two groups, established partnerships in two new countries (Brazil and Portugal) and pursued its own organic developments (new facilities), as well as making selective acquisitions of independent facilities.

After three years of brisk acquisition-led growth, the Group focused again on setting up new facilities in locations with strong purchasing power. In 2017, its network grew by 9,556 beds, with 60% of these added organically.

ORPEA also continued to pursue its real estate strategy of increasing the ownership rate of the properties it uses, which reached 45% by year-end 2017.

In parallel to these operational and property-related developments, ORPEA also strengthened its balance sheet.

2.1.1 ACQUISITION OF TWO GROUPS OUTSIDE FRANCE

ORPEA acquired two groups in 2017 to round out its offering in Austria and the Czech Republic. These two groups will add around €75 million in full-year revenue when they reach maturity. The groups ORPEA purchased were Anavita (932 beds) in the Czech Republic and Dr. Dr. Wagner (1,812 beds) in Austria.

ACQUISITION OF ANAVITA IN THE CZECH REPUBLIC

On 1 April 2017, ORPEA acquired Anavita, one of the leading operators of nursing homes in the Czech Republic. It has a network of six facilities with 932 beds (including one 256-bed facility under construction).

These large (average of 155 beds) and recently built (2.5 years old on average) nursing homes are located in major cities. Furthermore, the Anavita brand has established a very strong reputation in the Czech Republic for the quality of the long-term care it provides, especially in neurodegenerative illnesses.

ORPEA also acquired its real estate assets. Anavita's revenue totalled €7.0 million in 2016 and is expected to double once all six facilities have opened and reached maturity.

With this deal, ORPEA has become the number one private nursing home operator in the Czech Republic. It will be able to actively pursue expansion, with the opening of new facilities a top priority.

ACQUISITION OF DR. DR. WAGNER IN AUSTRIA

On 1 July 2017, ORPEA acquired the Dr. Dr. Wagner group, a leading player in the Austrian market for healthcare facilities, with a presence in post-acute and rehabilitation hospitals and in nursing homes. With the 1,812 beds in its 18 facilities, Dr. Dr. Wagner possesses all the characteristics that ORPEA looks for when making acquisitions:

- a very good reputation (patient and resident satisfaction rate of 96%);
- an integrated and diversified range of long- and medium-term care facilities, with multiple specialisations, including post-acute care and rehabilitation;
- recently-built premises (new builds or refurbishments over the past 10 years), a real-estate ownership rate of 80%, and attractive locations.

The Dr. Dr. Wagner group posted revenue of €60.0 million in 2016.

This acquisition will round out SeneCura's geographical coverage of Austria and extend its range of care and services across the entire spectrum of long- and medium-term care. Via its SeneCura local subsidiary, ORPEA has bolstered its leadership in the Austrian private nursing home sector.

2.1.2 PARTNERSHIP IN TWO NEW COUNTRIES: BRAZIL AND PORTUGAL

In line with its strategy of international expansion, ORPEA sealed two partnerships during the year covering new territories – Brazil and Portugal. These two countries harbour opportunities ideally suited to the Group's growth model.

To date, this development has taken place through the construction of new facilities in partnership with the SIS group. ORPEA has a longstanding relationship with the SIS group, which boasts considerable expertise in both these countries.

The establishment of a platform in Brazil, ORPEA's first in South America, represents an exceptional development opportunity for ORPEA over the coming years given its size (population of over 200 million inhabitants), its health-focused culture, and its middle and upper classes with rapidly growing purchasing power. In the long-term care sector, conditions in Brazil are ripe for ORPEA's development:

- very rapid population ageing: the population of over 80s is set to rise fivefold by 2050;
- limited supply with around three beds per 100 people aged over 80, compared with 20 in Europe;
- a sector predominantly made up of small-scale, medium-quality operators and dominated by public-sector and not-for-profit players;
- no controls on per diem rates, which are paid in their entirety by residents and their families.

Our development in Portugal will help to flesh out our European network.

ORPEA has decided to partner with the SIS group to establish itself and expand in these two countries. The SIS group is a family-owned company that holds all the shareholdings and businesses belonging to Philippe Austruy, a well-known entrepreneur and a pioneer in Europe's private health and long-term care sector. This will speed up ORPEA's expansion by several years, and ORPEA will also benefit from SIS' experience in both countries.

ORPEA and SIS have set up two joint ventures – one in Portugal and the other in Brazil – in which ORPEA owns 49.5% and 49.9% of the share capital respectively with an option to buy out the remainder exercisable over the next few years. All the development projects are considered and reviewed jointly by SIS' and ORPEA's teams, with ORPEA taking charge of operational management. In keeping with its real estate strategy, ORPEA will ultimately have at least majority ownership (over 50%) of the real estate of the facilities to be built in each country.

At year-end 2017, the joint ventures had set in motion plans for 2,185 new beds under construction (13 facilities) in Brazil and 1,141 beds under construction (10 facilities) in Portugal. These facilities are due to open from 2020 onwards.

2.1.3 FURTHER SELECTIVE DEVELOPMENTS IN CORE MARKETS

In 2017, ORPEA continued to pursue its longstanding strategy in all the territories it covers of opening new facilities, drawing up plans for new facilities to replenish its growth pipeline and making selective acquisitions:

- opening 15 new facilities with a total of around 1,864 beds in Europe following new construction, redevelopment and extension projects;
- setting in motion new plans to build or extend facilities in various countries where the Group has a longstanding presence, accounting for over 2,386 beds under construction;
- selective acquisitions, with the purchase of several independent operators or groups in Spain, Austria and Poland.

1,864 BEDS ADDED IN EUROPE

Harnessing this growth pipeline of beds under construction and redevelopment, ORPEA opened 1,864 new beds in 2017 at 15 facilities and extensions of facilities.

Around one-third of the new beds is located in France where new facilities meeting the highest standards of care and accommodation were opened, and smaller facilities were merged and extended.

Belgium accounted for approximately 30% of new openings during the year, with new facilities established in Antwerp, Ardooie and Liège. In Germany, the Group opened four new facilities, making up 20% of the total.

Lastly, the remaining 17% comprised one new facility at Kolin in the Czech Republic, one facility on Lake Maggiore in Italy and extensions in Austria.

NEW CONSTRUCTION PROJECTS THAT WILL ADD 2,386 BEDS

ORPEA also continued its strategy of organic growth with the launch of plans to build new facilities in its core countries. These include numerous projects in Poland and the Czech Republic, as well as in Switzerland, Spain, Austria and France, which together account for a total of 2,386 additional beds under construction.

By pursuing its strategy of expanding into new countries where demand is very high, the Group has also ratcheted up the increase in its growth pipeline. These new facilities and extensions due to open over the next three to four years are located in major European cities and areas with strong purchasing power and will provide an innovative offering geared to meeting demand, with the development of outpatient, homecare, assisted-living solutions alongside nursing home facilities.

These new plans represent the most powerful driver of the Group's future value creation.

SELECTIVE ACQUISITIONS ACCOUNTING FOR 1,100 BEDS

ORPEA continued to pursue its policy of selective acquisitions of facilities in operation. These transactions took place right across the long-term care sector and provide sources of future growth and profitability improvement over the coming years.

The Group acquired several independent facilities outside France, including in the Czech Republic, Poland, Austria, Switzerland and Spain, accounting for a total of 1,100 beds in 2017.

2.1.4 NETWORK OF 86,650 BEDS IN 12 COUNTRIES

At year-end 2017, the network consisted of 86,650 beds across 818 facilities in 12 countries. The number of beds outside France (53,213) now accounts for 61% of the overall network, or an increase of 150% in just three years.

Its growth pipeline consists of 13,379 beds under redevelopment and construction – 83% outside France – with many facilities in high-potential locations such as Berlin, Zurich, Prague, Lisbon, Warsaw and Rio de Janeiro.

	Total number of facilities	Total number of beds	Beds in operation	Of which beds under redevelopment	Beds under construction
France	357	33,437	31,214	1,130	1,093
Germany	165	17,572	14,997	-	2,575
Austria	81	7,042	6,858	-	184
Belgium	60	7,443	5,675	134	1,634
Brazil*	13	2,185	-	-	2,185
China	1	140	140	-	-
Spain	47	8,071	7,764	-	307
Italy	15	1,736	1,471	-	265
Poland	18	2,080	972	-	1,108
Portugal*	10	1,141	-	-	1,141
Czech Republic	17	2,463	1,542	-	921
Switzerland	34	3,340	2,638	-	702
TOTAL	**818**	**86,650**	**73,271**	**1,264**	**12,115**

* *Partnership with SIS Group (Portugal and Brazil) in which ORPEA's interests stand at 49.5% and 49.9% respectively.*

Over the past four years, ORPEA's network of beds has doubled in size with its expansion into six new countries. This momentum was sustained through international expansion, with almost a fivefold increase in the size of the network outside France from 11,132 beds at year-end 2013 to 53,213 beds at year-end 2017. The growth pipeline formed of beds under construction and redevelopment, which will fuel future organic growth, also grew substantially during the year. It rose 85% from 7,228 beds to 13,379 beds.

2.1.5 FURTHER OPTIMISATION OF ITS CAPITAL STRUCTURE

In 2017, ORPEA redeemed the ORNANE bonds it issued in 2013 by issuing new shares, which helped to increase its equity base by €408 million. As a result, the Group's ratios improved, providing another boost to ORPEA's financial flexibility, despite its brisk pace of expansion and real estate investments.

The policy of diversifying its sources of financing originally launched in 2012 was maintained in 2017, and ORPEA went ahead with further Schuldschein note issues that raised around €244 million, private bond placements that raised around €263 million and arranged conventional bank loans. All these funding operations went ahead on highly attractive terms owing to the record low level of interest rates and ORPEA's risk profile. Given the visibility of the sector in which it operates, its track record of profitable growth and its real estate portfolio, ORPEA's risk profile is regarded as being low risk by investors over the short, medium and long term.

In early 2018, the Group achieved further progress with this strategy of diversifying its funding sources by completing an inaugural €400 million public bond issue, tapping into a whole new pool of credit investors.

2.1.6 EXPANSION OF THE REAL ESTATE PORTFOLIO

In line with its stated policy, ORPEA expanded its real estate portfolio in 2017. Its longstanding real estate strategy is to retain ownership of a large proportion (around half) of its real estate portfolio. That said, the vast majority of the groups it acquired in 2014 and 2015 occupy properties under long-term leases, and so its real estate ownership rate fell when they joined the Group.

In 2017, the size of ORPEA's real estate portfolio increased in value by 22.2% or €917 million through additions in Germany, Austria, Italy and the Czech Republic.

Its real estate ownership rate now stands at 45%, close to the Group's target, compared with 36% at 31 December 2015.

Its portfolio (excluding the €33 million in real estate assets held for sale) was worth €5,042 million at 31 December 2017. This valuation by independent property appraisers is based on an average capitalisation rate of 6.0%, compared with 6.1% at year-end 2016. That represents a conservative valuation by comparison with recent market transactions for the same type of assets, priced at yields of 4.5%.

2.2 REVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

2.2.1 CONSOLIDATED RESULTS

(in thousands of euros)	FY 2017	FY 2016*
Revenue	**3,138,234**	**2,841,225**
Purchases used and other external expenses	(861,465)	(817,369)
Staff costs	(1,639,499)	(1,467,301)
Taxes other than on income	(104,449)	(96,555)
Depreciation, amortisation and charges to provisions	(153,309)	(126,456)
Other recurring operating income	22,006	24,036
Other recurring operating expense	(7,167)	(9,510)
Recurring operating profit	**394,351**	**348,070**
Other non-recurring operating income	115,180	204,981
Other non-recurring operating expense	(96,150)	(144,975)
Operating profit	**413,381**	**408,075**
Financial income	11,482	13,876
Financial expenses	(146,923)	(125,427)
Financial expense arising from early redemption of the ORNANE bonds	(15,254)	0
Net finance cost	(150,695)	(111,551)
Change in FVO**	(124,023)	(1,800)
Pre-tax profit	**138,663**	**294,724**
Income tax expense	(84,522)	(85,000)
Tax expense arising from early redemption of the ORNANE bonds	(21,633)	0
Impact of the measurement of deferred taxes at the rate expected to apply	52,874	80,000
Share in profit/(loss) of associates and joint ventures	4,421	3,817
Net profit of consolidated companies	**89,803**	**293,541**
Attributable to non-controlling interest	14	9
Attributable to owners of the parent	89,789	293,533
Net profit attributable to owners of the parent excluding the impact of early redemption of the ORNANE bonds and of the measurement of deferred taxes at the rate expected to apply	197,825	214,713
Number of shares	64,553,123	60,273,691
Basic earnings per share *(in euros)*	1.46	4.26
Diluted earnings per share *(in euros)*	1.46	4.26

* *Adjustment of the provisional allocation of Sanyres' goodwill during the window period in the 2016 financial statements (see notes to the consolidated financial statements).*
** *FVO: Fair value of the entitlement to the allotment of shares embedded in the ORNANE bonds.*

ORPEA GROUP'S 2017 CONSOLIDATED REVENUE

In 2017, 15 years on from its IPO, ORPEA reported revenue ahead of its guidance at €3,138.2 million. That represents a substantial increase of 10.5%, or close to €300 million in additional revenue compared with FY 2016.

The international business again made a major contribution to revenue growth. In just three years, revenue generated outside France tripled from €449 million in 2014 to over €1.36 billion in 2017, representing an average annual growth rate of 45%.

This top-line expansion was again underpinned by a combination of:

- brisk organic growth of 5.4%. Mature facilities posted consistently high occupancy rates owing to the structural demand in the sector and the location, appeal and reputation of ORPEA's facilities. As every year, ORPEA's organic growth was topped up by the ramp-up in the facilities that opened in 2016 and by the opening in 2017 of around 1,864 beds (in new and redeveloped facilities);
- brisk acquisition-led growth outside France, with the full-year contributions made by Sanyres in Spain and Spitex in Switzerland following their acquisition in 2016 and the contribution made by the 2017 acquisitions (Anavita in the Czech Republic over nine months and Dr. Dr. Wagner in Austria over six months).

(in millions of euros) **(IFRS)**	**2017**	**2016**	**Δ 2017/2016**	**2015**
France	1,775.1	1,695.4	4.7%	1,596.6
% of total revenue	*57%*	*60%*		*67%*
International	1,363.1	1,145.8	+19.0%	795.0
% of total revenue	*43%*	*40%*		*33%*
o/w:				
Germany	531.7	501.0		287.5
Austria	242.6	176.3		109.8
Belgium	167.6	162.1		157.8
China	1.5	0.4		-
Spain	142.8	101.7		63.9
Italy	51.7	48.5		45.9
Poland	13.0	11.3		-
Switzerland	199.0	142.9		130.1
Czech Republic	13.2	1.7		-
TOTAL REVENUE	**3,138.2**	**2,841.2**	**+10.5%**	**2,391.6**
*o/w organic growth**			*+5.4%*	

* *Organic growth in the Group's revenue reflects the following factors: 1. The year-on-year change in the revenue of existing facilities as a result of changes in their occupancy rates and per diem rates 2. The year-on-year change in the revenue of redeveloped facilities or those where capacity has been increased in the current or year-earlier period 3. Revenue generated in the current period by facilities created in the current or year-earlier period, and the change in revenue at recently acquired facilities by comparison with the previous equivalent period.*

In France, 2017 revenue grew by 4.7% to €1,775.1 million on the back of a strong performance by mature facilities and the ramp-up in facilities opened or redeveloped over the previous two years.

In Germany, revenue totalled €531.7 million, up 6.1% compared with the previous financial year, with a healthy rate of organic growth providing the main impetus.

In Austria, revenue increased 37.6% to €242.6 million owing to the contribution over six months from Dr. Dr. Wagner and several selective acquisitions.

In Belgium, 2017 revenue came to €167.6 million, up from €162.1 million in 2016. The 3.4% increase reflected the impact of the redevelopment of the Belgian network.

Between 2015 and 2017, the Belgian network has undergone a major overhaul, with the various redevelopments and new openings of very-high quality facilities in regions with strong purchasing power such as Brussels and Flanders.

While these developments will create value in the medium and long term, they are holding back the Group's performance in the short term.

In China, the Nanjing facility generated revenue of €1.5 million in its second year in operation.

In Spain, revenue grew by 40.4% to €142.8 million. This performance reflected:

- the firm activity levels at established facilities, most of which are located in Madrid and have established a solid reputation as long-term care providers;
- the impact of consolidating Sanyres, which was acquired on 1 July 2016, for an extra six months, plus another selective acquisition.

In Italy, ORPEA's revenue rose 6.8% to €51.7 million. This growth was driven by the ramp-up in recently opened facilities.

In Poland, revenue rose 15.0% to €13.0 million.

In Switzerland, revenue climbed 39.3% higher compared with 2016 with the consolidation of Spitex over a full year and the ramp-up in the recently opened Senevita facilities.

In Czech Republic, 2017 revenue came to €13.2 million, up from €1.7 million in 2016 as a result of the various acquisitions.

PROFITABILITY AND NET PROFIT

(in millions of euros) **(IFRS)**	**2017**	**% of revenue**	**2016***	**% of revenue**	**Δ 2017/2016**
Revenue	3,138.2	*100%*	2,841.2	*100%*	*+10.5%*
EBITDAR (recurring EBITDA before rent)	846.2	*27.0%*	769.4	*27.1%*	*+10.0%*
Recurring EBITDA	547.7	*17.5%*	474.5	*16.7%*	*+15.4%*
Recurring operating profit	394.4	*12.6%*	348.1	*12.3%*	*+13.3%*
Operating profit	413.4	*13.2%*	408.1	*14.4%*	*+1.3%*
Net finance cost**	(135.4)	*n.m.*	(111.6)	*n.m.*	*+21.3%*
Pre-tax profit**	275.2	*8.8%*	296.5	*10.4%*	*-7.2%*
NET PROFIT EXCLUDING IMPACT OF ORNANE BONDS AND DISCOUNTING DEFERRED TAXES*	**197.8**	**6.3%**	**214.7**	**7.6%**	**-7.9%**

* *Adjustment of the provisional allocation of Sanyres' goodwill during the window period in the 2016 financial statements (see notes to the consolidated financial statements).*

** *Excluding the non-cash charge arising from the accounting treatment of the ORNANE bonds of €160.9 million (fully offset by an increase in equity) and excluding the €52.9 million gain from discounting deferred taxes in 2017.*

EBITDAR (EBITDA before rents, but including provisions for external charges and staff costs) rose 10.0% to €846.2 million, or 27.0% of revenue, almost stable compared with 2016.

EBITDA (recurring operating profit before depreciation and amortisation, which includes provisions for external charges and staff costs) rose 15.4% to €547.7 million. This represented 17.5% of revenue, up 80 basis points compared with 2016.

Thanks to the strategy of increasing the real estate ownership rate (up to 45% at year-end 2017 from 39% in 2016), rental expenses barely rose to €298.5 million from €294.9 million in 2016.

After €153.3 million in depreciation, amortisation and charges to provisions (up 21.2% owing to additions to the real estate portfolio), **recurring operating profit** came to €394.4 million (up 13.3%).

Operating profit advanced to €413.4 million from €408.1 million in the previous year. This reflected a non-recurring gain after tax of €19.0 million, compared with €60.0 million in 2016 (after adjustment of the provisional allocation of Sanyres' goodwill during the window period).

Net finance cost came to €135.4 million, up 21.3% on 2016, excluding financial expense arising on the early redemption in the ORNANE bonds issued in July 2013.

Net profit (excluding the impact of the ORNANE bonds and discounting of deferred taxes) came to €197.8 million compared with €214.7 million in 2016.

2.2.2 CONSOLIDATED BALANCE SHEET

ASSETS

(in thousands of euros)	31/12/2017	31/12/2016
Goodwill	1,012,943	982,106
Intangible assets, net	2,082,066	1,889,176
Property, plant and equipment, net	4,672,159	3,681,859
Properties under construction	369,415	442,643
Investments in associates and joint ventures	110,307	62,235
Non-current financial assets	39,932	34,248
Deferred tax assets	36,837	38,424
Non-current assets	**8,323,658**	**7,130,690**
Inventories	8,671	8,369
Trade receivables	203,964	148,330
Other assets, accruals and prepayments	481,586	407,689
Cash and cash equivalents	613,898	539,924
Current assets	**1,308,119**	**1,104,312**
Assets held for sale	**63,705**	**140,020**
TOTAL ASSETS	**9,695,482**	**8,375,022**

LIABILITIES AND EQUITY

(in thousands of euros)	31/12/2017	31/12/2016
Share capital	80,691	75,342
Consolidated reserves	2,076,972	1,433,636
Revaluation reserves	467,714	310,410
Net profit for the period	89,789	293,533
Equity attributable to owners of the parent	**2,715,166**	**2,112,921**
Non-controlling interest	213	199
Total consolidated equity	**2,715,379**	**2,113,120**
Non-current financial liabilities	4,621,575	3,801,254
Change in the fair value of the entitlement to the allotment of shares embedded in the ORNANE bonds		74,793
Provisions	122,273	143,108
Post-employment and related benefit obligations	72,185	63,919
Deferred tax liabilities	858,288	797,067
Non-current liabilities	**5,674,320**	**4,880,141**
Current financial liabilities	405,000	418,531
Provisions	48,706	25,304
Trade payables	227,206	232,019
Tax and payroll liabilities	269,967	226,587
Current tax liabilities	2,974	15,041
Other payables, accruals and prepayments	288,225	324,259
Current liabilities	**1,242,077**	**1,241,741**
Debt associated with assets held for sale	**63,705**	**140,020**
TOTAL EQUITY AND LIABILITIES	**9,695,482**	**8,375,022**

Operating assets

At 31 December 2017, goodwill totalled €1,012.9 million, compared with €982.1 million at 31 December 2016. Intangible assets (chiefly consisting of operating licences) came to €2,082.1 million, up from €1,889.2 million at 31 December 2016 (less intangible assets held for sale amounting to €31 million at 31 December 2017 and €73 million at 31 December 2016). The increase was attributable to acquisitions in Austria, the Czech Republic, Switzerland, France and Italy.

Impairment testing of goodwill, intangible assets and real estate assets did not reveal the need to recognise any losses.

Real estate portfolio

The portfolio had a total value of €5,041.6 million (less the €33 million in real estate assets being sold), including €369.4 million in land and assets under construction or redevelopment.

In keeping with its strategic goal, ORPEA increased the size of its real estate portfolio by €917 million in FY 2017, or 22.2%. This growth was achieved through acquisitions of assets in Germany, Austria, Italy and the Czech Republic.

All operating properties are carried at fair value.

The real estate portfolio chiefly consists of new and recently built properties in economically vibrant areas, and is a significant source of asset value for the Group that will help to secure its profitability in the medium and long term.

In FY 2017, overall real estate expenses, including rent and depreciation of real estate assets wholly or partially owned, came to €435.9 million (€137.4 million in depreciation and €298.5 million in rent), compared with €422.0 million in FY 2016 (€110.3 million in depreciation and €294.9 million in rent).

Capital structure and debt

At 31 December 2017, the Group's equity attributable to equity holders of the parent stood at €2,715.2 million, up from €2,112.9 million at 31 December 2016. This increase reflected the early redemption of the ORNANE bonds in shares during FY 2017 and also the adjustment to the allocation of Sanyres' goodwill.

At 31 December 2017, the Group had €613.9 million in cash and cash equivalents, compared with €539.9 million at 31 December 2016. This increase reflected the proceeds in the second half of 2017 from the issue of *Schuldschein* notes, private bond placements and conventional bilateral loans.

Net debt stood at €4,412.7 million[(1)], compared with €3,679.9 million[(1)] at 31 December 2016. The brisk pace of investment in real estate and operating assets during FY 2017 was responsible for this increase. Net debt at 31 December 2017 breaks down as follows:

- gross current financial liabilities: €405.0 million[(1)];
- gross non-current financial liabilities: €4,621.6 million;
- cash: €(613.9) million.

Gross current financial liabilities stood at €405.0 million[(1)] at 31 December 2017. These consist of bridging loans financing properties recently acquired or under redevelopment or construction, lease financing and other borrowings and loans due in less than one year.

ORPEA retains significant financial flexibility to continue with its real estate and operational investments since its debt ratios improved in 2017 and are comfortably within the maximum levels permitted by its covenants. At 31 December 2017, they were as follows:

- financial leverage ratio restated for real estate of 2.1x compared with 2.3x at 31 December 2016 (level of up to 5.5x authorised);
- restated gearing of 1.4x *vs.* 1.5x at 31 December 2016 (level of up to 2.0x permitted).

During 2017, the Group continued to optimise its capital structure, by putting in place additional hedges and various different borrowing arrangements. As a result of these efforts:

- borrowings other than bank loans accounted for 45% of net debt at 31 December 2017;
- the average maturity of net debt was 5.0x years at 31 December 2017;
- fixed-rate net debt, either by nature or after hedging, accounts for almost 100% of the total over the 2018-2024 period.

Other assets and liabilities

Changes in Other receivables and Other payables reflect construction projects, disposals of real estate assets and acquisitions in connection with the Group's expansion drive.

2.2.3 CASH FLOWS

(in millions of euros)	2017	2016	2015
Gross cash flow from operations	+432	+386	+301
Net cash generated by operating activities	+398	+347	+314
Net cash generated/(used by) investing activities	(1,068)	(787)	(1,014)
Net cash generated financing activities	+744	+461	+597
Change in cash and cash equivalents	+74	+21	(103)

Cash flow generated by operating activities rose 14.7% in 2017 to reach €398 million, an increase almost on a par with EBITDA growth.

Cash used by investing activities came to €1,068 million, of which 87% was devoted to real estate investments. This included continuing construction projects and acquisitions of properties operated by the Group in the Czech Republic, Italy, Germany and Austria to secure its profitability over the long term.

Cash flow generated by financing activities came to €744 million as a result of the various transactions completed during the course of the year.

(1) Excluding €63.7 million in debt associated with assets held for sale at 31 December 2017 and €140.0 million at 31 December 2016.

2.3 REVIEW OF THE PARENT-COMPANY FINANCIAL STATEMENTS AT 31 DECEMBER 2017

2.3.1 ORPEA SA'S INCOME STATEMENT

(in euros)	FY 2017	FY 2016
Revenue	792,094,399	723,748,182
Production transferred to inventories	(40,686,454)	(36,172,563)
Other operating income	48,848,457	56,950,045
Purchases and other external charges	292,982,963	272,569,229
Taxes other than on income	43,310,280	37,981,337
Staff costs	369,310,432	345,975,374
Depreciation, amortisation and charges to provisions	21,507,398	22,407,167
Other operating expenses	1,016,663	1,443,473
Operating profit	**72,128,666**	**64,149,083**
Financial income	165,288,643	92,950,147
Financial expenses	112,292,194	110,138,451
Net finance cost	**52,996,448**	**(17,188,304)**
Pre-tax profit on ordinary activities	**125,125,115**	**46,960,779**
Net non-recurring items	(8,969,099)	(10,568,119)
Employee profit-sharing		
Income tax	4,954,206	6,483,743
NET PROFIT	**111,201,810**	**29,908,916**

REVENUE

ORPEA SA's revenue came to €792.1 million in FY 2017, up 9.4% compared with FY 2016.

ORPEA's core business of operating nursing homes generated revenue of €754.6 million, up 5.7% on the FY 2016 level of €713.9 million. The increase reflects the ORPEA Group's development strategy combining organic growth and acquisitions as outlined above.

Revenue from the disposal of real estate disposals came to €37.4 million, down from €9.8 million in FY 2016.

OPERATING PROFIT

Operating expenses rose in line with the growth in the business:

- purchases and other external charges increased by 7.5% to €293.0 million;
- staff costs remained under control, rising 6.7% to €369.3 million.

Taxes other than on income increased by 14.0% to €43.3 million.

Depreciation, amortisation and charges to provisions totalled €21.5 million, down from €22.4 million in FY 2016.

Taking these factors into account, ORPEA SA's operating profit rose 12.4% to €72.1 million in FY 2017.

NET FINANCE COST

ORPEA SA's net finance cost showed a gain of €53.0 million, compared with a charge of €(17.2) million in FY 2016. This reflected net interest expense on the Company's net debt of €(51.3) million, compared with €(48.2) million in FY 2016. The improvement in the net finance cost reflected a €100 million dividend payment by CLINEA SAS in FY 2017, compared with €30 million in FY 2016.

NET NON-RECURRING ITEMS

Net non-recurring items showed a net expense of €(9.0) million, compared with €(10.6) million in FY 2016.

NET PROFIT

After €(5.0) million in income tax expense, ORPEA SA's net profit came to €111.2 million, up from €29.9 million in FY 2016.

2.3.2 ORPEA SA'S BALANCE SHEET

ASSETS

(in euros)	31/12/2017 Gross	31/12/2017 Depr., amort. and provisions	31/12/2017 Net	31/12/2016 Net
NON-CURRENT ASSETS				
Intangible assets	284,002,749	2,052,674	281,950,075	269,504,896
Property, plant and equipment	404,264,700	155,642,778	248,621,922	238,039,474
Financial assets	1,270,107,598	13,478,026	1,256,629,572	1,054,341,764
Total non-current assets	**1,938,375,049**	**171,173,478**	**1,787,291,571**	**1,561,886,133**
CURRENT ASSETS				
Inventories and work-in-progress	8,510,797	1,188,655	7,322,142	42,649,186
Advances and downpayments made	4,335,124		4,335,124	4,030,636
Trade receivables	22,118,331	5,688,763	16,429,568	12,211,230
Other receivables	2,591,045,295	13,911,467	2,577,133,828	1,977,542,116
Short-term investments	24,140,322		24,140,322	19,232,763
Cash and cash equivalents	265,471,323		265,471,323	327,191,402
Prepaid expenses	11,126,108		11,126,108	10,039,006
Total current assets	**2,926,747,300**	**20,788,885**	**2,905,958,415**	**2,392,896,339**
Deferred expenses				-
TOTAL ASSETS	**4,885,122,348**	**191,962,363**	**4,693,159,985**	**3,954,782,475**

LIABILITIES AND EQUITY

(in euros)	31/12/2017	31/12/2016
EQUITY		
Share capital	80,691,404	75,342,114
Share premiums and reserves	663,441,212	526,953,669
Retained earnings		466,713
Net profit for the period	111,201,810	29,908,916
Tax-regulated provisions	8,389,506	7,069,252
Total equity	**863,723,932**	**639,740,663**
Provisions for liabilities and charges	26,939,619	39,016,945
FINANCIAL LIABILITIES		
Borrowings and financial liabilities	3,185,638,228	2,661,957,944
Advances and downpayments received	1,357,800	4,418,048
Trade payables	32,786,477	42,967,781
Tax and payroll liabilities	93,655,421	97,760,664
Other payables	473,916,647	429,646,414
Prepaid income	11,384,497	37,451,087
Total financial liabilities	**3,798,739,071**	**3,274,201,939**
UNREALISED FOREIGN CURRENCY GAINS	3,757,364	1,822,928
TOTAL EQUITY AND LIABILITIES	**4,693,159,985**	**3,954,782,475**

ORPEA SA had net non-current assets of €1,787.2 million at 31 December 2017, compared with €1,561.9 million one year earlier, with the difference attributable to the rise in financial investments.

Net current assets totalled €2,906.0 million, up 21.4% from €2,392.9 million at 31 December 2016.

ORPEA SA's equity totalled €863.7 million at 31 December 2017, compared with €639.7 million at 31 December 2016. The early redemption of the ORNANE bonds in new shares was instrumental in this increase.

Borrowings and financial liabilities, the main component of ORPEA's debt, amounted to €3,185.6 million at 31 December 2017, compared with €2,662.0 million at 31 December 2016, with the increase reflecting recent bond issues.

ORPEA SA's total assets rose to €4,693.2 million at 31 December 2017 from €3,954.8 million at 31 December 2016.

2.3.3 INFORMATION ON SUPPLIER AND CUSTOMER PAYMENT TERMS

Pursuant to Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, the following table shows information about the payment terms applicable to ORPEA's suppliers and customers at 31 December 2017.

	Article D. 441 1-1°: Past-due invoices received but not paid at the reporting date					
(in euros)	**0 days (indicative)**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 days or more**	**Total (1 day or more)**
(A) Late payments by period						
Number of invoices						23,541
Total value of invoices incl. VAT	13,165,359.85	5,273,462.75	668,908.86	2,960,620.08	3,733,944.92	12,636,936.61
Percentage of total purchases in the FY incl. VAT	2%	1%	0%	0%	0%	2%
(B) Invoices excluded from (A) concerning disputed or unrecognised receivables and payables						
Number of invoices excluded	Impossible to obtain this information (unpaid invoices by total per period and not by invoice)					
Total value of invoices excluded incl. VAT			6,984,180.36			
(C) Reference payment terms applied (contractual or statutory period – Article L. 441-6 or Article L. 443-1 of the French Commercial Code)						
Payment periods used to calculate late payments	Contractual periods: 30 days Statutory periods: 30 days					

(in euros)	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days or more	Total (1 day or more)
	Article D. 441 1-1°: Past-due invoices issued but not paid at the reporting date					
(A) Late payments by period						
Number of invoices						39,896
Total value of invoices incl. VAT	144,121.14	3,893,714.99	1,651,904.50	(152,612.74)	(1,297,138.76)	4,095,867.99
Percentage of total FY revenue incl. VAT	0%	1%	0%	0%	0%	1%
(B) Invoices excluded from (A) concerning disputed or unrecognised receivables and payables						
Number of invoices excluded	Impossible to obtain this information (invoices excluded and disputed by total per period and not by invoice)					
Total value of invoices excluded incl. VAT	15,725,894.05					
(C) Reference payment periods used (contractual or statutory period – Article L. 441-6 or Article L. 443-1 of the French Commercial Code)						
Payment periods used to calculate late payments	Contractual periods: 30 days Statutory periods: 30 days					

In accordance with Articles L. 441-6-1 and D.441-4 of the French Commercial Code, the amounts owed to suppliers at 31 December 2016 broke down by due date as follows (payment times for trade payables at the end of the financial year were determined by comparing the date of each invoice with the actual payment date).

	31/12/2016
Trade payables	24,113,178
Less than 30 days	4,022,812
30-60 days	7,650,198
60-90 days	1,800,851
More than 90 days	10,639,317

2.3.4 SUBSIDIARIES AND OTHER EQUITY INTERESTS

2.3.4.1 CLINEA SAS' REVENUE AND RESULTS

Revenue

CLINEA SAS' revenue from the operation of hospitals came to €630 million, up 5.8% from the €596 million recorded in FY 2016. This growth reflects the Group's development strategy combining organic growth and acquisitions as outlined above.

Operating profit

CLINEA SAS kept a tight grip on its operating expenses, which rose at a slightly slower pace than revenue:

- purchases and other external charges increased by 6.8% to €193 million from €180.7 million in FY 2016;
- staff costs moved up 5.3% to €292.2 million;
- taxes other than on income increased by 5.9% to €50.5 million.

Taking these factors into account, CLINEA SAS' operating profit came to €86.2 million, up 3.0% compared with FY 2016.

Net finance cost

CLINEA SAS' net finance cost totalled €(1.1) million, compared with €(14.3) million in FY 2016.

Net non-recurring items

CLINEA SAS' net non-recurring items showed a net gain of €0 million, compared with €1.4 million in FY 2016.

Net profit

After income tax expense up 12.2% to €(22.4) million, CLINEA SAS' net profit came to €59.2 million, up from €45.9 million in FY 2016.

Balance sheet

CLINEA SAS' **net non-current assets** totalled €776.9 million at 31 December 2017 compared with €762.3 million at 31 December 2016.

Its **net current assets** came to €269.5 million, compared with €173.4 million at 31 December 2016.

Its **equity** stood at €282.7 million at 31 December 2017, compared with €323.5 million at 31 December 2016.

Borrowings and financial liabilities rose to €18.9 million at 31 December 2017 from €18.5 million at 31 December 2016.

CLINEA SAS' **total assets** increased to €1,047.3 million at 31 December 2017 from €935.7 million at 31 December 2016.

2.3.4.2 REVENUE AND RESULTS OF THE OTHER MAIN SUBSIDIARIES

The **Belgian subsidiaries** posted revenue of €167.6 million in FY 2017, up 3.4% from €162.1 million in FY 2016 with the gradual ramp-up in facilities opened over the past two years. Recurring EBITDAR[1] totalled €33.3 million, up from €29.3 million in FY 2016. This increase reflected the growing maturity of certain sites.

The **Spanish subsidiaries** posted revenue of €142.8 million in FY 2017, up 40.4% from €101.7 million in FY 2016 owing mainly to the acquisition of Sanyres in the second half of 2016. Recurring EBITDAR[1] totalled €29.8 million, up 38.6% from €21.5 million in FY 2016.

The **Italian subsidiaries** generated revenue of €51.7 million in FY 2017, up 6.6% from €48.5 million in FY 2016 chiefly as a result of the ramp-up in recently opened facilities. Recurring EBITDAR[1] totalled €9.5 million compared with €7.2 million in FY 2016. This 31.9% increase flowed from the encouraging ramp-up in facilities that have opened since 2015.

The **Swiss subsidiaries** posted revenue of €199.0 million, compared with €142.9 million in FY 2016. This 39.3% increase reflected the acquisition of Spitex on 1 January 2017. Recurring EBITDAR[1] totalled €67.5 million, up 31.3% from €51.4 million in FY 2016.

The **German subsidiaries** recorded FY 2017 revenue of €531.7 million, compared with €501.0 million in FY 2016. The ramp-up in recently opened facilities powered this 6.1% increase. Recurring EBITDAR[1] came to €133.4 million *vs*. €133.5 million in FY 2016. This stable performance reflected organisational improvements at the administrative headquarters.

The **Austrian subsidiaries** posted revenue of €242.6 million in FY 2017, compared with €176.3 million in FY 2016. This 37.6% increase reflected the acquisition of the Dr. Dr. Wagner group on 1 July 2017. Recurring EBITDAR[1] came to €43.0 million in FY 2017 *vs.* €34.5 million in FY 2016.

The **Czech subsidiaries** recorded revenue of €13.2 million in FY 2017. The 2017 acquisitions, including of the Anavita group, accounted for the increase from €1.7 million in FY 2016. Recurring EBITDAR[1] showed a loss of €1.0 million, compared with a loss of €2.4 million in FY 2016, owing to the progressive ramp-up in facilities opened recently.

The **Chinese subsidiary**, which opened its first facility in Nanjing in 2016, posted FY 2017 revenue of €1.5 million, compared with €0.4 million in FY 2016, and a recurring EBITDAR[1] loss of €2.9 million, compared with a loss of €3.1 million in FY 2016.

2.3.4.3 DETAILS OF MAIN PARTICIPATING INTERESTS

See chapter 6 Parent company financial statements at 31 December 2017.

(1) Recurring EBITDAR = recurring EBITDA before rent. Recurring EBITDA is recurring operating profit before net additions to depreciation and amortisation, including provisions related to external charges and staff costs.

2.4 OTHER FINANCIAL INFORMATION

2.4.1 DIVIDEND PAYMENTS DURING THE PAST THREE FINANCIAL YEARS

The table below shows the amount of the dividend per share paid in the three most recent financial years, as well as the applicable tax regime.

Financial year (year of payout)	Dividend paid per share	Eligible for the 40% rebated stated in 2° of Article 158(3) of the French General Tax Code	Not eligible for the 40% rebated stated in 2° of Article 158(3) of the French General Tax Code
2014 (2015)	€0.80	€0.80	None
2015 (2016)	€0.90	€0.90	None
2016 (2017)	€1.00	€1.00	None

Pursuant to Article 2277 of the French Civil Code, dividends that are not claimed within five years of their payment date will lapse and become the property of the State.

2.4.2 APPROPRIATION OF NET PROFIT AND DIVIDEND PROPOSED AT THE ANNUAL GENERAL MEETING

Net profit for the financial year came to €111,201,810.02. At the Annual General Meeting due to be held on 28 June 2018, the proposal will be to appropriate €2,074,740.26 to the statutory reserve.

The remainder of earnings for the financial year, that is €109,127,069.77, represents the amount available for distribution in respect of the financial year.

The Annual General Meeting of 28 June 2018 will be asked to approve:

- the payout of a dividend of €1.10 per share (representing a 10% increase on the previous financial year) to the 64,586,323 shares of the Company, that is a total payment of €71,044,955.30, to be drawn in its entirety from earnings available for distribution in respect of the year, representing a payout rate of 36% of 2017 net profit attributable to equity holders of the parent (excluding the impact of the ORNANE bonds and discounting of deferred taxes); and
- the appropriation of €38,082,114.47 to “Other reserves”.

2.4.3 LAVISH EXPENDITURE

The Company’s lavish expenditure covered by Article 39-4 of the French General Tax Code amounted to €239,548. This represented excess depreciation of the passenger vehicles not deductible for tax purposes.

2.4.4 SHARE BUYBACK PROGRAMME AND LIQUIDITY AGREEMENT

SHARE BUYBACK PROGRAMME

The General Meeting of the shareholders of 22 June 2017 renewed the authorisation for the Board of Directors to buy and sell ORPEA shares. The following table sets out the arrangements and objectives for the Company's new programme to repurchase its own shares.

Shares concerned	Ordinary shares
Maximum percentage of the capital that may be repurchased pursuant to the Annual General Meeting's authorisation	10% of the total number of shares forming the share capital of the Company at any time
Maximum repurchase price	€150 per share
Maximum amount of funds available for share repurchases	€907,661,505
Objectives of the programme	■ To make a market or ensure the liquidity of trading in the shares through an independent investment services provider acting under a liquidity agreement that complies with a code of conduct approved by the *Autorité des marchés financiers* ■ To allot some or all of the shares purchased to employees and/or corporate officers of the Company and/or the Group under the terms and conditions set out by law, including under employee profit-sharing plans, stock option plans, bonus share allotment plans or employee share ownership plans ■ To remit its shares upon the exercise of securities carrying entitlement by way of conversion, exercise, redemption, exchange, or any other means to the allotment of the Company's shares in accordance with stock market regulations ■ To cancel its shares through a capital reduction as provided for in the French Commercial Code ■ To keep some or all of the shares purchased for subsequent remittance in exchange for or as consideration in connection with any other growth-related transactions or any other transaction authorised pursuant to the regulations in force ■ To implement any market practices that are permitted by law or by the *Autorité des marchés financiers*
Repurchase arrangements	These shares may be purchased, sold, transferred or exchanged and paid for by any means on the regulated markets or multilateral trading systems, including under a liquidity agreement entered into by the Company with an investment service provider, subject to compliance with the regulations in force, including off-market and block transactions, the use of derivative financial instruments, the implementation of option strategies (purchase and sale of calls and put options, and any combinations thereof in accordance with the applicable regulations) at the times that the Board of Directors or, where appropriate, the person to whom the Board of Directors delegates its powers, sees fit (except during a public offer for the Company's shares). There are no restrictions limiting the portion of the buyback programme that may take place through block trades
Length of the programme	18 months from the General Meeting of the shareholders of 22 June 2017, that is until 21 December 2018

The Company has not used any derivatives in connection with this share buyback programme or the previous one, and it does not have any open positions.

LIQUIDITY AGREEMENT

The Company has entered into a liquidity agreement with Gilbert Dupont to implement the share buyback programme. The agreement complies with the AMAFI code of conduct approved by the AMF on 1 October 2008. Gilbert Dupont trades in the Company's shares on an arm's length basis and has sole responsibility for investment and divestment decisions, which must comply with the purpose of the liquidity agreement and ensure its continuity. The sole purpose of the liquidity agreement is therefore to make a market in the shares and ensure regular price quotations to avoid swings in share price which are not warranted by market trends. In any event, transactions made under the liquidity agreement must not disrupt the market's normal operation. Gilbert Dupont is also committed to the principle of proportionality set out in the charter.

The assets and funds held in the liquidity account at 29 December 2017 for the purposes of the liquidity agreement were as follows:

- number of shares: 12,759;
- cash balance held in the liquidity account: €892,632.80.

2.4.5 RESEARCH AND DEVELOPMENT

The Company did not incur any research and development expenses during the year.

2.5 OUTLOOK AND EVENTS SUBSEQUENT TO 1 JANUARY 2018

2.5.1 OUTLOOK

ORPEA intends to push ahead with its expansion strategy outside France, both in countries where the Group is already present and in new territories, by:

- building new facilities to a high-quality standard in prime locations in all the countries where it has a presence;
- making selective acquisitions to complement its existing network or establishing a presence in new geographical territories, while strictly observing the Group's profitability criteria;
- expanding to new geographical territories where there is substantial demand for long-term care, and especially to regions with strong purchasing power;
- developing the complementary nature of ORPEA's offering with homecare and services, independent living facilities and outpatient treatment to bolster the spectrum of care it provides.

ORPEA is reiterating its revenue target of €3,400 million for 2018 (an 8.3% increase on 2017), together with an EBITDA margin equal to or higher than its 2017 level.

2.5.2 EVENTS SUBSEQUENT TO 1 JANUARY 2018

ACQUISITION OF INOGES IN GERMANY

At 1 January 2018, Celenus-Kliniken, an ORPEA subsidiary managing post-acute and rehabilitation facilities in Germany, acquired a majority shareholding in Inoges. Founded in 2003 by its current manager, Inoges is the German leader in outpatient rehabilitation (equivalent to day hospitals). Inoges has 30 locations (including two in-patient rehabilitation facilities) in urban areas close to hospitals, primarily in North Rhine-Westphalia, Hesse and Bavaria.

Outpatient rehabilitation has expanded at a very brisk pace in Germany (growth of 13% p.a. over the past 10 years), spurred on by both public authorities and private insurers, meeting increasingly strong demand from patients.

Inoges recorded 2016 revenue of €50 million.

For Celenus-Kliniken, this acquisition represents a unique strategic opportunity to build on its existing in-patient rehabilitation offering and to harness synergies between the two businesses, plus fresh development opportunities in Germany.

INAUGURAL €400 MILLION PUBLIC BOND PLACEMENT

ORPEA completed the placement in February 2018 of an inaugural seven-year public bond issue of €400 million (due in March 2025) with an annual fixed-rate coupon of 2.625%.

The success of this inaugural issue amid volatile market conditions is a testament to credit investors' confidence in the Group (over 115, including 44% of them outside France).

The issue fits perfectly with the financing strategy the Group has implemented since 2012 consisting in:

- diversifying its sources of funding: after private bond placements and Schuldschein issues, the public market will further expand its base of credit investors;
- extending the maturity of debt at an attractive cost.

Q1 2018 REVENUE AND ACQUISITION IN THE NETHERLANDS – PRESS RELEASE ON 2 MAY 2018

ORPEA reported its revenue for the first quarter of 2018, ended 31 March, on 2 May 2018. It also announced the establishment of a base in the Netherlands with the acquisitions of Dagelijks Leven and Woonzorgnet.

Q1 2018 revenue growth of 10.7%

ORPEA's first quarter 2018 revenue totalled €832.1 million, up 10.7% on the level posted in the first quarter of 2017.

(in millions of euros)	Q1 2018	Q1 2017	Chg.
France Benelux	499.3	474.9	+5.1%
Central Europe	214.5	187.0	+14.8%
Eastern Europe	80.1	55.0	+45.4%
Iberian Peninsula	37.8	34.5	+9.6%
Other countries	0.4	0.3	+70.7%
TOTAL REVENUE	**832.1**	**751.7**	**+10.7%**
*o/w organic growth**			**+5.4%**

* *Organic growth in the Group's revenue reflects the following factors: 1. The year-on-year change in the revenue of existing facilities as a result of changes in their occupancy rates and per diem rates 2. The year-on-year change in the revenue of redeveloped facilities or those where capacity has been increased in the current or year-earlier period 3. Revenue generated in the current period by facilities created in the current or year-earlier period, and the change in revenue at recently acquired facilities by comparison with the previous equivalent period.*

Anavita in the Czech Republic was consolidated from 1 April 2017, Dr. Dr. Wagner in Austria from 1 July 2017 and Inoges in Germany from 1 January 2018.

Central Europe encompasses Germany, Italy and Switzerland. Eastern Europe covers Austria, Poland and the Czech Republic. The Iberian Peninsula consists of Spain and Portugal. The Rest of the World segment solely consists of China.

Establishment of a base in the Netherlands with the acquisitions of Dagelijks Leven and Woonzorgnet

Under its European expansion strategy, ORPEA has established a base in the Netherlands by acquiring one of the leading nursing home operators and a recognised expert in psychiatric care. With these two latest deals, the Group has secured additional organic growth potential for the coming years.

The long-term care sector in the Netherlands boasts healthy growth prospects:

- the population of over-80s is forecast to nearly triple by 2050;
- the bed capacity rate per capita is low – around 35% below the average level in Europe – and so 100,000 new beds need to be added by 2040;
- the private sector's market share is very limited at just 4%.

Founded in 2013, Dagelijks Leven is one of the leading nursing home operators with a network of 800 beds in 40 facilities (including 220 beds under construction and due to open in 2018). Its facilities were all built recently (less than four years old) and have gained a solid reputation for the quality of the care and services they provide among both residents and the supervisory authorities.

Dagelijks Leven possesses an attractive, highly standardised model:

- identically sized facilities (20 beds) attuned to the country's culture;
- a unified per diem rate;
- all support functions centralised;
- an easily replicable and rapid development method requiring less than one year to go from the selection of land through to the opening of a new facility;
- an expert management team that has created the model and will continue to contribute to its development.

ORPEA will acquire a majority interest in Dagelijks Leven. The deal is still subject to authorisation by the health authorities.

In addition, in early 2018 ORPEA also acquired Woonzorgnet, a recognised expert in providing long-term psychiatric care with 162 beds in seven facilities.

Yves Le Masne, ORPEA's Chief Executive Officer, commented:

"Our first-quarter 2018 performance was very brisk, and we again achieved strong revenue growth of 10.7% to €832 million. This highly impressive top-line increase was again driven by our powerful model combining very healthy organic growth of 5.4% and a contribution from acquisitions, including in Austria, the Czech Republic and Germany.

The pace of organic growth held up across all our geographical territories thanks to:

- consistently high occupancy rates as a result of our high-quality care and the carefully chosen location of our facilities;
- the ramp-up in facilities that we have opened over the past two years, mostly in large towns and cities or in areas with major purchasing power;
- the opening of 650 beds in the first quarter of 2018 alone in France, Switzerland, Italy and Belgium.

In line with our strategy, we have continued to expand in Europe by establishing a base in the Netherlands through the acquisition of two companies. Dagelijks Leven and Woonzorgnet represent unique platforms for organic growth, with their experienced management teams and a first-class reputation, which will help achieve our development targets in this new territory.

These deals are a testament to our ability to attract the best teams so that we are able to create value over the long term.

We are confidently reiterating our targets for 2018 of revenue of €3,400 million (increase of 8.3%), an EBITDA margin at least on a par with its 2017 level and further organic development and acquisitions."

2.6 RISK MANAGEMENT

2.6.1 GENERAL RISK IDENTIFICATION AND MANAGEMENT POLICY

As an operator providing services round-the-clock, seven days a week, ORPEA recognises that it will inevitably fall below its high standards and it may make mistakes at times.

Mindful of this, ORPEA and all its staff relentlessly and regularly pursue any scope for optimisation or improvements to the services delivered to residents and patients.

ORPEA thus has an active risk prevention and management policy aimed at ensuring that the risks arising from its business are kept under control as far as possible.

The risks presented here are those that ORPEA considers, as of the date of this report, to be most likely to have a significant adverse impact on the Group, its business, the results of its operations or its development.

Led by its executive management, the team responsible for risk management was reorganised in 2017. The dedicated unit was strengthened and is now built around two independent entities – permanent control, which encompasses risk management, internal control and compliance, and periodic control, which houses the internal audit function. These two entities report to the audit, risk and internal control department, which in turn reports directly to executive management, to maintain its independence.

In parallel, the quality and medical departments and the operational departments continue to roll out and refine the various risk management tools developed over the past 20 years. On a daily basis, each facility's management team carefully monitors its activities by identifying risks, laying down preventative measures to eliminate or mitigate these risks, implementing measures to raise awareness and train staff, making self-assessment and control audits processes more robust, conducting a critical review of systems, and making sure that quality and medical teams follow up on action plans.

2.6.2 MANAGEMENT OF RISKS ARISING FROM THE GROUP'S SECTOR OF ACTIVITY

2.6.2.1 MANAGEMENT OF REGULATORY RISKS ARISING FROM THE AWARD AND RENEWAL OF OPERATING LICENCES

Risk identification

A licence is needed to operate a nursing home or medical facility in France, as in the other countries where the Group is active. These licences are issued by the relevant authorities, specific to each country (Regional Health Agency and/or local authority in France, Local Health Administration (ASL) in Italy, the autonomous communities' social services in Spain, groups of municipalities in Belgium, etc.). The ease with which such licences are obtained varies with the national and regional regulations.

In some countries, such as France, Belgium and Austria, obtaining such licences depends directly on the quota of beds planned by the relevant authorities.

Other countries, such as Germany, have not (yet) established such barriers to entry. However, the authorities require compliance with architectural, safety, quality, staff and other standards before issuing a licence.

Licences are awarded either for an indefinite period – in some regions of Belgium (Wallonia), Switzerland, Austria or Spain for instance – or for a fixed term of 5 to 15 years in France, with renewal subject to compliance with procedures and quality standards.

To maintain or renew their licences, they usually have to undergo procedures that assess and check their service quality. Depending on the country, these procedures are carried out by either the national or regional regulatory authorities.

An operating licence may not be renewed if a significant breach of standards is identified. Licences may even be withdrawn by the supervisory authorities where serious misconduct occurs.

Risk management

Generally speaking, the operating licences granted to ORPEA's facilities have never come under any threat given the internal control and meticulous monitoring processes implemented by its various departments and support units (quality department, medical department, operations departments, works, purchasing and catering units, etc.).

The quality procedures, which cover all subsidiaries and all stages of resident and patient care, as well as the care provision traceability approach implemented by the medical department and audits performed by support units, help ORPEA to guard against the potential risk of operating licences not being granted or renewed.

2.6.2.2 MANAGEMENT OF REGULATORY RISKS ARISING FROM PRICING AT GROUP FACILITIES

Risk identification

In most of the countries where ORPEA operates, the pricing schedule applied by facilities has two main components:

- a component that broadly consists of care and medical expenses, which is usually funded by the public authorities (national or regional health insurance system, national long-term care insurance, etc.);
- a component covering accommodation and/or superior comfort levels (*e.g.* a private room), paid for by the resident or patient.

The portion paid for by the public authorities varies from country to country, and even from one region to another within the same country, but makes up less than 50% of total funding in most cases.

The portion paid for by patients and residents is deregulated in most countries, but increases are often regulated, subject to an inflation-linked cap, at least for existing residents. By contrast, pricing is not subject to any regulations for all new residents or patients in France and Switzerland.

There is a risk that public funding for this type of care may be reduced due to fiscal restraint. A general decrease in rates paid by the public sector could have a negative impact on the Group, the results of its operations and financial position.

Risk management

The Group now operates in 12 countries, and so it has diversified its exposure to several healthcare systems by expanding its operations in countries such as Germany and Austria, where public funding is in surplus and secure over the long term.

In addition, the Group has always focused on countries where a significant portion of its revenue, and crucially its profits, is generated from private funding. In the event of a cut in public funding, the Group has a degree of flexibility because of the proportion of its funding that comes from private sources.

In certain countries, the Group has developed a completely private offering that does not receive any public funding. That applies in Spain, Poland, Portugal, Brazil and China.

2.6.2.3 MANAGEMENT OF RISKS ARISING FROM A CHANGE IN PUBLIC POLICY

Risk identification

Generally speaking, regardless of the country, governments are keen to promote homecare for the elderly requiring long-term care and thus to support homecare services. In recent years, all European countries have developed initiatives and increased funding for homecare, giving retirement homes a greater focus on elderly people requiring a high level of care. Germany, after the second reform of the long-term care sector (known as PSG2), is a case in point. Right across the board, nursing homes are tending to focus more on residents requiring the highest levels of care.

Risk management

ORPEA, regardless of the country where it operates, does not consider homecare to be a direct competitor but a complementary service. Indeed, it looks after people requiring levels of long-term care that effectively preclude them from staying in their home. Multiple studies have shown that new beds will need to be provided for the elderly everywhere over the coming years. As an example, the number of new beds that will be needed in the 11 countries served by ORPEA (excluding China) is estimated at over 1 million by 2040.

In recent years, the Group has developed a complementary range of homecare services, including its DOMIDOM and Adhap Services networks in France. In late 2016, the Group acquired Spitex Ville et Campagne in Switzerland, the country's leading private-sector homecare network. In many countries, the Group has also refined its offering to meet demand for assisted-living facilities, hospitals and outpatient care, as well as for nursing homes.

Risk identification

Owing to fiscal constraints, certain countries could also cut public and social security benefits for residents and patients, increasing the proportion paid by the resident or patient, thereby reducing their purchasing power.

Risk management

ORPEA has diversified this risk since it now operates in 12 countries, and some of these, such as Switzerland, are very stable and are not planning any reforms.

What's more, the solvency risk of residents and patients is mitigated by three factors:

- statistics suggest that the very elderly are poised to see their incomes grow over the next few years right across Europe. In France, for instance, people aged 85 and over are forecast to see a 42% increase in their annual income from 2005 to 2020;
- the private commercial sector accounts for just 10% to 40% of the total number of beds for the elderly in all the countries served by ORPEA. Accordingly, the ability of residents and patients appears to be less of an issue given the statistical distribution of wealth among the very elderly;
- ORPEA has always aimed to locate its facilities in areas with strong purchasing power.

2.6.2.4 MANAGEMENT OF LABOUR RISKS

Risk identification

The quality, availability and commitment of employees is one of the keys to the Group's success.

Any failure by ORPEA to identify, attract and retain competent employees and train them in responsible behaviour could affect the development of its activities and the results of its operations.

In particular, difficulties in hiring qualified care staff in some countries or staff turnover could negatively affect the organisation and disrupt the smooth running of the Group's facilities. Should they persist, these difficulties could have an adverse impact on the quality of care provided.

In addition, a prolonged shortage of qualified care staff, if left unmanaged, could jeopardise the number of beds authorised or even the operating licence itself, as compliance with personnel standards applies to all subsidiaries.

All facilities must be able to provide continuity of care and medical treatment for their residents and patients through an adequately staffed and appropriately qualified care team.

Risk management

To address these risks, the Group has chosen to take greater control of mobility and hiring by putting in place dedicated teams to monitor these activities and by strengthening the human resources management teams in a number of business units. These measures include recruitment of a Head of Human Resources responsible for these aspects.

To identify and anticipate the recruitment needs of each business unit, tailored action plans have been implemented to:

- pinpoint hiring needs by subsidiary and profile, taking into account development plans and the age structure;
- make sure job offers achieve a high profile using media geared to ORPEA's needs and new modes of communication (social media, etc.);
- develop mobility within countries but also between business units in different countries. The aim is to retain staff and skills within the Group, offering career development opportunities to those seeking them;
- pursue a dynamic policy by establishing relationships with schools in all countries. This provides a means of promoting ORPEA and the jobs it offers, and to plan ahead for its requirements by hiring and training interns and people on work/study contracts in its facilities;
- take part in job fairs, speed recruitment events and medical conferences, focusing on profiles with the greatest potential shortages, especially at the regional level, and develop local initiatives with employment partners;
- manage and supervise, as the Group has done for many years, an active training policy geared to fostering skills development and employee retention through numerous programmes including language training to facilitate mobility, training at the ESCP business school to promote talent, and specialised and rewarding degree courses for care teams in partnership with renowned universities;
- implement meaningful projects for teams bringing them together and forging ties to help develop a rewarding and inclusive work environment for staff;
- pursue labour-management dialogue to underpin the stability of teams within facilities.

2.6.2.5 MANAGEMENT OF CLIMATE RISK

Risk identification

Nursing homes and short-term care facilities must be prepared to cope with abnormal weather conditions; they could be held liable if they fail to do so, which could affect their reputation.

Such events are unpredictable by nature. However, facilities must have the internal procedures in place to guarantee the safety, comfort and well-being of their residents and patients and be able to act swiftly and appropriately when necessary.

Risk management

The ORPEA group's facilities are equipped to cope with hot or cold weather conditions that could endanger the health of residents and patients.

The medical department has drawn up procedures and protocols (mobilising staff, hydrating residents, adapting diets, etc.) to be applied across the Group's facilities, and staff training has been organised to guarantee the ongoing care and well-being of residents.

Agreements and/or partnerships have been signed with nearby healthcare facilities in order to set out arrangements for cooperating and in particular for caring for residents who are vulnerable in the event of a heatwave.

In accordance with prevailing regulations in each country, all the requisite equipment (air conditioned rooms, generators, etc.) has been installed in facilities as appropriate.

In parallel, facilities located in high-risk zones (*e.g.* at risk of flooding, forest fires, etc.) are identified, and specific procedures have been established to address risks potentially arising from their geographical location.

2.6.2.6 MANAGEMENT OF PANDEMIC RISK

Risk identification

Aside from the human aspects, which remain the top priority, an epidemic on a local or national scale could disrupt the smooth running of the Group's facilities and have an adverse impact on its financial position due to the potential loss of business caused by confinement measures and the additional costs involved in implementing exceptional health and safety measures.

Risk management

Faced with the potential risk of an epidemic outside its facilities, ORPEA has implemented all appropriate preventive measures:

- preparing and circulating a crisis management plan incorporating a business continuity plan;
- informing and training staff, reminding them of the best hygiene practices and isolation protocols in the event of patient or resident infection, etc.;
- cataloguing and ordering the requisite equipment (masks, protective eyewear, antiseptic solution, etc.) to cope with an epidemic and prevent the virus spreading, while protecting residents, patients and staff;
- informing visitors through notices, limiting visits and issuing recommendations on best hygiene practices;
- setting up a national crisis unit (comprising members of the operations, medical and quality departments) responsible for coordinating actions across the entire Group and centralising information issued by each facility's crisis unit.

In addition to these internal arrangements, facilities in each country have to apply the measures imposed by the various governments in terms of the procedures to follow and the requisite conduct.

Every year, ORPEA's facilities take part in a major campaign to communicate with patients, residents and staff to raise awareness and encourage them to get immunised.

2.6.2.7 MANAGEMENT OF RISKS ARISING FROM CHANGES IN THE MARKETPLACE

Risk identification

The type of facilities and long-term care available varies tremendously in the long-term care sector, ranging from homecare, to sheltered housing, assisted-living facilities and nursing homes. Industry players come from very different backgrounds and may be public-sector, not-for-profit or private commercial organisations, offering different services and charging different prices. Consequently, patients, residents and their families choose a facility based on several criteria (location, quality, cost, etc.). Accordingly, ORPEA's facilities have to stay competitive and maintain a high level of appeal.

Risk management

Hospitals play a key role in influencing the choice of medical facilities, with families, referring physicians or social services key influencers for nursing homes. They advise future patients and residents on choosing a facility based on a number of criteria, including its location, expected quality of care, team expertise and bed availability. ORPEA is constantly striving to make its facilities more attractive by investing and redeveloping buildings, offering locations in city centres and carrying out ongoing quality audits. Each facility manager cultivates local relationships with influencers, inviting them to visit their facility on a regular basis.

A satisfaction survey is conducted annually among influencers to gauge their expectations and their level of satisfaction.

The risk of new operators entering the market or of a substantial increase in competing care facilities is limited. Medical facilities and nursing homes are regulated in most countries, and so an operating licence is generally required.

In addition, with the population ageing, bed capacity in nursing homes continues to lag well short of the level of demand seen in all the countries in which ORPEA operates.

2.6.3 RISKS SPECIFIC TO THE ORPEA GROUP OR ARISING FROM ITS STRATEGY

2.6.3.1 MANAGEMENT OF THE RISK OF MISTREATMENT AND ABUSE

Risk identification

Despite staff's care and professionalism, there is no guarantee that residents or patients who feel they have been mistreated or abused will not take legal action against one of the Group's facilities. That could tarnish the facility's image and adversely affect its commercial appeal or more generally harm the ORPEA group's reputation.

Risk management

The Group has drawn up a preventive and remedial protocol for mistreatment and abuse covering all of its facilities. Not only is this designed to help prevent such behaviour – through appropriate recruitment, staff integration, support and training – but it also calls for any person suspected of mistreatment or abuse to be suspended in compliance with personnel management rules for as long as it takes to conduct an internal investigation.

An entire set of best practices has been drawn up to prevent and manage this risk. Procedures are available to make sure each stage of resident or patient care is controlled and delivered as safely as possible. The traceability of medical care is a top priority to guarantee the quality of care as part of a personalised care programme.

Consistent quality standards appropriate to all facilities have been drawn up under the responsibility of the Group quality department, assisted by the medical department.

In addition, throughout the year, ORPEA's employees receive training on how to detect and prevent mistreatment and abuse. The training includes discussions of personal experiences, role-playing activities, and individual and collective action plans. Mini-refresher courses are also provided regularly in each facility.

In addition to those preventative measures, each ORPEA group facility is committed to providing positive treatment.

Positive treatment is founded on respect for individuals, their dignity and their differences.

Positive treatment also requires collective analysis of working practices with professionals regularly reflecting on what they do, and rigorously applying the measures decided on to improve practices.

To some extent, it is part of a culture that involves continuous self-reflection and analysis of the latest advances in knowledge and findings in the human, social and medical sciences.

Striving to provide positive treatment entails continuous reflection and analysis and cooperation among professionals, users and close relatives, as well as other stakeholders, to identify the best possible way of meeting a given need at any particular time.

In 2015, the Group established an international ethics committee, whose work helps nurture the practices of the various teams at ORPEA facilities in France and around the world.

Each of the Group's facilities can refer matters to the Committee or raise issues questions concerning a resident's or patient's care, especially where this has implications for positive treatment.

The ORPEA group has always been committed to proactive approaches to positive treatment. It continually raises staff awareness of the values and best practices that are essential to maintain respect for the dignity and individuality of its residents and patients. These values are enshrined in the ORPEA quality charters for residents, patients and families, as well as in charters setting out values that matter to teams.

Difficulties identified while caring for a resident/patient are discussed at the weekly briefing meetings held in each Group facility. The best solutions for respecting the freedom, rights, individuality and dignity of the resident or patient are identified by participants working as a team.

Lastly, the Group's organisation facilitates closer monitoring of the quality of care provided, as well as scrutiny of staff's handling of everyday problems, as facility managers are relieved of the burden of having to perform the majority of support functions.

2.6.3.2 MANAGEMENT OF THE RISK ARISING FROM THE SAFETY OF BUILDINGS

Keeping the people it looks after physically safe is a pre-requisite for any medical facility or nursing home. The number of regulations in this area is growing all the time, and they are becoming more burdensome and complex.

A group of ORPEA's size, which manages over 800 facilities, has to devote very considerable financial and human resources to comply with them to ensure that it maintains them and conforms to the standards at all times.

Maintenance and safety policy

Risk identification

Like all premises open to the public, ORPEA's facilities are subject to strict safety regulations, whatever the host country.

Failure by the Group's facilities to abide by these rules could result in civil and/or criminal action against the ORPEA group, lead to the withdrawal of operating licences and have a negative impact on its business and financial position and/or damage its reputation.

ORPEA has risen to this challenge by opting to invest heavily each year to ensure that its facilities, in all countries, comply with government health, safety and fire directives. As such, a works budget is allocated each year by the Group works department and executive management to fully comply with regulatory standards.

Risk management

To prevent this risk, the ORPEA group pays close attention to compliance with safety standards in its facilities, and its investment policy requires regular maintenance and servicing.

Its key priority is to make all its facilities high-quality, secure and comfortable places. ORPEA's facilities were built or redeveloped recently and therefore form a consistent, homogeneous portfolio of assets that meet the most stringent regulatory standards and provide a level of comfort few in the sector can rival.

A works department covering each of the countries served by ORPEA is responsible for building safety and maintenance. It implements both preventative and remedial measures as part of a system assuring full traceability to identify the issue that has arisen, the action taken to mitigate it, the person responsible, and the date on which the action was completed.

In parallel, ORPEA has established a network of specialist independent contractors that can audit the safety of its installations and buildings to check their compliance with the (fire, elevator, gas, water, etc.) regulations in force.

Fire risk

ORPEA's facilities strictly apply the fire safety standards in force in every country, with quarterly, semi-annual or annual maintenance work (fire safety system, smoke extraction system, fire doors, fire extinguishers, etc.).

A prevention policy has been implemented and all the Group's employees have been trained (annually or semi-annually depending on the country). This policy is implemented by either an accredited external firm or a specially trained in-house officer in compliance with the legal requirements in each country.

Safety instructions and evacuation plans are displayed in each facility, showing the exact route to the relevant assembly point.

Tests are regularly carried out in facilities to check staff response times in the event of a fire alarm.

Fire safety checks are also carried out on the fire safety of installations by the relevant bodies at the intervals laid down in each country's regulations.

Risks arising from domestic hot water

Risk identification

Legionellosis (which includes Legionnaires' disease) is a serious lung disease caused by inhalation of water particles contaminated with *legionella* bacteria. Epidemiological monitoring is carried out under a mandatory reporting system to prevent legionellosis.

It is characterised by a severe acute lung infection that is fatal in 11% of cases.

Risk management

ORPEA facilities comply with local recommendations governing medical and nursing home facilities.

ORPEA has implemented a policy to prevent and control legionella risk, based primarily on best practices regarding water system maintenance and facilities at risk.

The ORPEA works department ensures that the hot water systems of all facilities are compliant and present no risk. It also checks that water systems are maintained regularly and properly by the maintenance officer in each facility.

In countries where required by regulations, ORPEA's facilities keep regular records containing all information concerning the management of water in the facility.

In addition to keeping these records, all facilities perform daily monitoring of temperatures at different points in the network.

Moreover, legionella analyses are conducted on the basis of a schedule set annually.

A technical protocol of preventive measures against legionella risk has been established in all the Group's facilities. It lists all relevant maintenance, preventive and remedial actions taken.

A protocol of measures to take in the event of unsatisfactory results has also been drawn up. It sets out the various stages of remedial action that the facility must take to keep its residents, patients and staff safe.

Independently of legionella risk, ORPEA attaches great importance to preventing the risk of scalding by hot water. To prevent this risk, temperature mixers are installed on showers for residents and patients.

Quality of drinking water

Potability analyses are performed (bacteriological and physico-chemical analysis) to check the quality of drinking water in all the countries where ORPEA operates.

Asbestos risk

Every year the ORPEA group makes the necessary investments to ensure that its facilities comply with the public health directives issued by public authorities.

Accordingly, ORPEA has paid special attention to asbestos risk and compliance with regulations, which vary from one country to the next and also depending on the standards in force in the year a building was constructed.

All facilities presenting an asbestos risk have been audited, and asbestos has been removed in compliance with regulatory provisions.

Radon risk

Risk identification

Radon is a radioactive gas produced by the breakdown of uranium and radium in the earth's crust. Rising up from soil and water, radon passes into the air. Through a confinement effect, it is more highly concentrated indoors than outdoors.

The health risks associated with exposure to radon have been established through numerous studies in humans (particularly among miners) and animals, with a demonstrable link to lung cancer.

Risk management

In compliance with the regulations in force, ORPEA has commissioned an approved provider to carry out radon analyses on all facilities located in areas potentially exposed to radon. If a risk is identified, remedial measures are implemented to keep residents safe.

2.6.3.3 MANAGEMENT OF RISKS ARISING FROM THE PROVISION OF CARE AND BEST PRACTICES

Risk of infection

Risk identification

The Group could also be held liable in the event of infections in its facilities. Non-compliance with best hygiene practices could result in legal action against the Group.

Risk management

To prevent the risk of its residents and patients being exposed to infection, ORPEA has introduced procedures to comply with the hygiene rules (washing of hands, standard precautions) and also taken measures specifically intended to curb the risk of contamination of other residents and patients (isolation measures).

The Group's public health specialists have been trained in preventing and managing the risk of infection for each facility's teams.

At the same time, campaigns have been launched to raise staff awareness about these issues, including through annual awareness days about hand washing and/or resident and patient safety.

The widespread use of alcohol-based hand sanitisers in facilities reduces the risk of infection through hand contact.

The quality and/or medical departments conduct regular audits to ensure that hygiene rules are complied with properly, that systems are under control (laundry, waste, etc.) and that staff, residents/patients and visitors are aware of the issues.

To strengthen risk prevention efforts within ORPEA's facilities, a hygiene unit was created in 2016 encompassing external professionals (such as a representative of France's committee for the prevention of nosocomial infections).

Management of potentially infectious medical waste

Risk identification

Since they come into contact with certain types of medical waste as a result of their jobs, employees are exposed to the risk of infection.

Medical and similar potentially infectious waste contains viable micro-organisms or their toxins that are known or likely to cause diseases in humans or other living organisms as a result of their nature, quantity and/or metabolism.

Risk management

To prevent the risk of contamination, the Group's facilities must comply with rigorous logistical and organisational procedures in accordance with the regulations in force on managing infectious medical waste.

All facilities are equipped with special receptacles for collecting these types of waste: containers for needles and other "sharps", and "cliniboxes" for other infectious waste.

Waste is removed and disposed of by an authorised company under a service agreement or partnership.

In each country, medical waste management protocols establish the arrangements for the intermediate and final storage of such waste, as well for its removal for disposal at various intervals determined in accordance with the law of the relevant country.

Risks arising from the use of medical equipment and devices

Risk identification

The use of medical devices may carry risks. Those risks may arise through the way they work, the way they are used or a combination of other causes. The risks may affect the patient, the user or third parties.

They may arise from all medical devices of the same type, model or supplier.

Risk management

While each country may or may not have specific regulations, ORPEA applies best practices at all its facilities, irrespective of their geographical location.

Incidents generated by this risk can be prevented by ensuring comprehensive oversight of all medical devices.

ORPEA catalogues all the medical devices it uses and draws up an annual maintenance plan. It also establishes maintenance protocols for these medical devices.

In parallel, a medical device supervisor is appointed in hospitals where they are used more frequently with responsibility for reporting incidents, approving measures to be taken, etc.

An equipment supervision system is an integral part of risk management and safety and quality improvement in each of these facilities.

The relevant supervisory authorities check that equipment complies with any regulatory provisions during their annual inspection.

Medical error or negligence

Risk identification

Claims by residents or patients in respect of medical or paramedical care could be made against an ORPEA group facility, for negligence or professional malpractice. However, doctors are personally liable when providing care, particularly doctors in private practice.

Apart from the image risk for the facility and the resulting reputational risk for the Group as a whole, ORPEA could also be forced to pay compensation to claimants.

However, its facilities do not provide surgical care or procedures and, since the extent of medical activity is very limited, the risk of medical negligence is limited.

Risk management

The risk of negligence or of failings in care provision is managed in the same way as the risk of mistreatment and abuse: care protocols and treatment traceability are the main measures taken to prevent shortcomings and to control the effectiveness of care.

A Group-wide civil liability insurance has been arranged to cover ORPEA against medical error or negligence claims from patients or residents.

Drug-related iatrogeny

Risk identification

Drug-related iatrogeny refers to adverse effects on the health of a patient from any act or procedure performed or prescribed by a qualified professional aimed at protecting or curing an individual.

Adverse side effects may result from:

- an act by a professional with or without medical error; or
- the use of a drug, whether or not its use corresponds to its standard indication.

If iatrogeny results solely from use of a drug in accordance with its marketing authorisation, the facility has a duty to alert the relevant authorities. If iatrogeny results from a medication error, the facility could be held liable.

A medication error is an omission or non-intentional action during the provision of care involving medication, which may cause a risk or an undesirable event for the patient.

The error may be due either to poor design of the medication and its information (name confusion, inappropriate packaging, problems with the label or information leaflet, etc.) or to the systemic organisation of the patient's treatment process (medication management procedure, human factors, environmental factors, professional practices, etc.).

Risk management

ORPEA takes major steps to control this risk. Many of its departments (operations, medical, quality, purchasing, IT, training, legal, etc.) are involved in deploying tools and systems to make sure patients and residents are provided with medication safely.

In each country where ORPEA operates, computerised tools for prescribing, dispensing and administering drugs have been introduced, and are adjusted to meet requirements specific to the business sector and regulatory provisions.

Thanks to this sophisticated and scalable technology, ORPEA is able to deploy additional security measures to prevent any drug-related iatrogeny very quickly.

Best practice procedures back up the safety measures in the medication management system. They cover the receipt of medication, storage conditions, preparation, management of expired products, withdrawal of batches, etc.

To ensure consistency in the safety arrangements, ORPEA's quality department has introduced tools for reporting specific drug-related incidents, allowing all those involved to issue reports in a timely manner.

At the end of each month, incidents are reviewed by the team to identify the causes and prevent their reoccurrence.

To complete this medication management process, each facility conducts a quarterly self-assessment of its procedure to identify potential risks and adopt the requisite remedial measures. Audits outside the facility are also performed by support services.

In view of the type of patients cared for in ORPEA's facilities, special attention is paid to polypharmacy in elderly patients, with nationwide action on selected issues such as the use of benzodiazepines or the prescription of anticoagulants.

In addition, ORPEA conducts employee training on all the tools available for keeping the drug supply chain safe.

Wandering (flight) risks

Risk identification

With the ageing of the population and the growing number of people with Alzheimer's disease, the risk of patients wandering out of medical and nursing homes has increased.

Wandering by senile patients or patients with psychiatric conditions may cause them significant harm, and the facility may be held responsible.

Risk management

Preventing residents/patients from wandering is an integral part of the best practices applied by ORPEA as a top priority.

The procedures drawn up by ORPEA include the best practices presented below, which are applicable in all countries.

Upon their admission, residents and patients who are potentially at risk of wandering based on an assessment by the facility's doctor – or the health supervisor when regulations do not require the presence of a doctor – are identified and placed in appropriate protected units. In other cases, suitable monitoring measures are taken (anti-wandering devices, etc.). These measures are always discussed with the doctor, staff and the resident's legal guardian, safeguarding the resident's and patient's well-being, rights and freedoms.

Staff have been trained to identify any behaviour that could lead to a wandering risk. All incidents are immediately reported to management and to staff to take the most effective measures and adjust the resident's living and care plan.

Should a resident/patient go missing, the ORPEA group has drawn up and introduced a very strict protocol for all its facilities to launch all the requisite search arrangements very rapidly based on a detailed missing person's report (description of the patient/resident, what s/he is wearing, photo, previous address, etc.).

Suicide

Risk identification

Given the number of people cared for in its facilities, particularly in psychiatric facilities, the Group may be held liable in the event of a suicide or an attempted suicide by a patient or resident.

Risk management

The healthcare team conducts an assessment of the potential suicide risk upon a resident's/patient's admission, which covers their background and/or current situation, signs of vulnerability and impulsiveness, plus the individual, family and psychosocial factors.

For individuals at risk, in addition to the requisite close monitoring, the care team (doctor, nurses, care workers, psychologist) also takes protective measures such as strengthening family and social connections or introducing projects that enable the resident/patient to make future plans and/or find alternative life options.

In all cases, residents and patients at risk cared for in a secure environment, in which there is limited scope to open windows, there is no access to areas identified as "dangerous" for residents/patients, and from which all hazardous objects have been removed.

In parallel, a care plan is adjusted to take into account the resident's or patient's suicide risk.

Action taken to bolster prevention in ORPEA's facilities include suicide risk training and awareness-raising initiatives for staff. A number of facilities have appointed correspondents in charge of introducing best practice.

Should a suicide occur, a procedure lays down the best practices for managing the situation. Care is immediately provided to the family and close relatives and the facility's teams are debriefed.

Lastly, the Group established an emergency psychological unit for facilities in 2009 to support the management of the most sensitive cases. It consists of around 20 psychologists specifically trained in managing post-traumatic stress, and they can hold group or one-to-one therapy sessions within 24 hours of the event in France, Belgium or Switzerland. In other countries, subsidiaries use specialist organisations or professionals from facilities other than the one in which the incident occurred.

2.6.3.4 MANAGEMENT OF RISKS ARISING FROM FOOD PRODUCTS

Risk identification

A failure in the food chain may give rise to the risk of facility-wide food poisoning, which can negatively impact the health of residents, patients and employees, as well as harming the facility's reputation. The facility may be held liable in the case of such an infection.

Risk management

It is not enough just to prepare good, tasty and nutritionally appropriate meals; they must also meet food safety standards.

In all countries, kitchen hygiene is monitored using a HACCP approach. Internal procedures lay down the processes to be followed and are compiled into a best practice handbook available in each kitchen.

The sanitary quality of the products served is monitored by an external laboratory at intervals laid down in the regulations.

The purpose is to verify and monitor the sanitary quality of food served to consumers and to ensure compliance with the rules on hygiene and the temperature at which meals are cooked, stored and distributed. Sampling is performed on a random basis by a technician appointed by the laboratory.

Quarterly audits round out the actions performed to check compliance with food safety practices. In the event of non-compliance, action plans are implemented under the supervision of the relevant food and/or quality units in that country.

At the same time, consumers are informed about the presence of any allergens in certain prepared products.

2.6.3.5 MANAGEMENT OF RISKS ARISING FROM THE GROUP'S DEVELOPMENT

Risk arising from the price paid for acquisitions

For many years now, ORPEA has implemented an active development policy, in particular through the acquisition of existing facilities or small groups of facilities.

Competition to buy companies is heating up given the concentration of the long-term care sector in recent years and growing interest from private equity companies. The emergence of national and indeed international groups in the long-term care and post-acute and rehabilitation care sectors could cause those groups to bid up the prices paid to acquire independent facilities.

However, the number of potential targets remains significant, because, apart from a few private groups (Korian, Domus Vi, Attendo, etc.), the private sector remains highly fragmented in all countries and is dominated by small family-owned operators. In most cases, these facilities are no longer able to comply with the regulatory standards or their owners wish to hand over the reins, perhaps because the founder has reached retirement age. In addition, given the funding difficulties faced by local authorities, certain facilities in the not-for-profit sector are struggling and therefore represent a new source of growth for the Group.

ORPEA operates in 12 countries, which means that it has a very diverse range of potential targets. ORPEA adopts a highly selective approach focused on acquiring independent facilities or small groups of facilities, a segment in which there is far less competition than for larger groups.

Risks arising from acquisitions and from the integration of facilities recently acquired by the Group

ORPEA's network of facilities has expanded rapidly, with acquisitions playing a major part in this. In recent years, over 50% of the Group's growth has come from acquisition-led growth in countries where it was already present and in new territories. The facilities it purchases do not usually comply with its quality or its expected profitability standards at the time of their acquisition.

Even so, ORPEA has gained great experience in acquiring facilities, and has built its organisation and information systems to integrate and control the groups it buys. In recent years, it has invested heavily in both information systems and in strengthening management to facilitate the smooth integration of its new facilities in all respects and to tighten up its controls.

What's more, the ORPEA's strategy is to make selective acquisitions of facilities or medium-sized groups to curb the impact on the Group.

Risk arising from raising additional funding

ORPEA can provide no assurance that it will be able to obtain the financing it needs for its expansion, and particularly that market conditions will be conducive to raising funds as equity or debt.

However, ORPEA's banking partners are confident in the Group due to the excellent visibility over its future cash flows, which are not particularly affected by the current economic crisis.

Furthermore, ORPEA has a flexible financial structure, with covenant ratios well below the authorised limits. Since the second half of 2012, ORPEA has greatly diversified its funding sources by carrying out various bond issues:

- private bond placements with major French institutional investors (insurance companies and mutual insurance groups);
- several *Schuldschein* note issues in the German market, bought by a wide variety of European and Asian investors. At year-end 2017, *Schuldschein* issuance totalled over €1 billion;
- in early 2018, the Group completed its first-ever public bond placement issuing a seven-year maturity that raised €400 million, tapping into a whole new pool of credit investors.

In 2017, ORPEA redeemed in shares the ORNANE bonds it issued in 2013, boosting its equity base and improving its debt ratios.

Lastly, the Group still boasts a healthy cash position, which came to €614 million at 31 December 2017.

2.6.3.6 MANAGEMENT OF REAL ESTATE RISKS

Risk arising from operating properties

As with all facilities open to the public, ORPEA's facilities in France have to comply with the applicable fire safety and disabled access standards.

Safety risks arising at the Group's facilities are addressed in point 2.6.3.2 – Management of the risk arising from the safety of buildings.

ORPEA complies with all the standards and is subject to the customary periodical inspections made by the fire safety commission (external inspection agency). The Group's works department conducts regular maintenance and monitors recommendations issued by the fire safety commission.

Furthermore, ORPEA invests in renovation and maintenance to maintain the appeal of its facilities so that it can provide high-quality accommodation to its residents and patients.

Construction risk

As stated in the previous section, ORPEA builds a large number of its own facilities.

It is therefore exposed to the full range of construction-related risks, including:

- third-party objections to planning permission, which may delay the start of construction work;
- delays to project delivery, mainly owing to failures by sub-contractors or inclement weather;
- temporary adverse opinions from safety and disabled access committees, which may delay the commissioning of facilities;
- defects and substandard building work.

To curb its exposure to these risks, ORPEA has an in-house property development department. This department is responsible, in conjunction with external architects, for preparing applications for planning permission in close cooperation with:

- operational staff (regional heads, medical department and pricing department) to draft a functional plan ensuring the smooth running of the facility and proper organisation of care provision;
- the administrative departments of the local authorities responsible for granting planning permission, which facilitates preparation of the application and the process of obtaining permission.

In addition, all works are insured under comprehensive construction work policies.

Property ownership risks

The main risk arising from property ownership is the risk of vacancy and non-utilisation of properties leading to a revenue and cash flow shortfall.

This risk is very limited for the Group because:

- properties are operated or intended to be operated by the Group itself in carefully selected geographical areas, and are not therefore exposed to the risk of a tenant's voluntary departure;
- the risk of vacancy is virtually nil in a sector characterised by very strong structural demand that outstrips current supply.

Consequently, the properties owned by ORPEA differ from office and residential properties due to their visibility and ability to maintain high occupancy rates.

Risks arising from property disposals

ORPEA regularly sells operating properties in blocks or individually to third-party investors. Where these sales take place off-plan, the Group may face construction-related contingencies that may significantly increase the cost of the building and result in losses.

To limit these risks, the Group has an in-house property development department, which oversees all construction projects and a financial control department in charge of monitoring construction budgets.

Risks arising from property leases

ORPEA sells some of the properties it operates and leases them back over a given period of time. There is a risk of rent increases based on indexation and of rent increases upon renewal of a lease.

To keep rental costs under control, around 50% of leases are indexed annually at a fixed or capped rate to protect the Group against the risk of inflation.

Upon renewal of a lease, ORPEA retains some degree of flexibility because it holds the operating licence for the facility.

2.6.3.7 MANAGEMENT OF THE INFORMATION SYSTEMS RISK

ORPEA has an IT department that develops and deploys IT tools and information systems to manage resident, patient and employee records, as well as accounting data, financial flows, etc.

"Bespoke" tools

The decision to develop a large portion of its IT solutions in-house was based on an analysis of the risks arising from possible failures by software vendors and the potential ramifications for facilities' business activities. A software bug would have detrimental effects, which, even if temporary, could have a major impact on the smooth operation of the facilities. ORPEA acted very early on in its development to address these risks by making the decision to build most of its IT applications and solutions in-house. This strategy has given ORPEA infrastructure and tools specifically tailored to its requirements and to the needs of its various activities.

Since many IT developments are carried out internally, the teams have a real understanding of the changes and developments in the software used.

These developments also incorporate the notion of user profiles to restrict data access, especially to medical data. Accordingly, each user has access solely to the data required for their duties and activities as part of an approach that seeks to maintain data confidentiality.

Controlled risks and enhanced security

ORPEA devotes a large budget every year to developing and consolidating the security of its information system. It also strives to tighten up the system's security by addressing cyberthreats, for example.

IT security is a key pillar of ORPEA's approach to validating projects. Every year, concrete IT security and data privacy measures are implemented and monitored. These have included programmes to raise awareness about security and data privacy, the use of a questionnaire to assess IT system security risks for each project, an impact assessment procedure, upskilling of the IT department's staff, designation of a Data Protection Officer, and the appointment of a Head of Information Systems Security.

More broadly, the new performance and compliance department was set up to align IT systems even more closely with business line needs, while keeping a tight grip on the medical and personal data management, security and compliance imperatives. It represents a control and continuous improvement body in ORPEA's IT governance framework.

ORPEA has identified the major information systems security risks and drawn up a plan with the following risk options: avoid, pool, retain, or reduce.

Security criteria are applied to each risk identified – confidentiality, integrity, availability and traceability (or auditability) – and residual risks are identified and accepted.

The information systems department also has responsibility for handling other issues:

- user activity is monitored using logs in accordance with CNIL (French data protection agency) recommendations, and an IT security charter has been drafted and a copy of it has been given to all employees using the Group's information systems;
- vulnerability monitoring: monitoring of the latest attacks, cybercrime threats (ransomware, CryptoLocker and Crypto Wall) and drafting of an action plan, if necessary;
- incident tracking is among the processes that safeguard the IT system.

ORPEA's efforts to keep threats under control fall under one of the following four headings: strategic, organisational, project and technical:

- strategic: this category was discussed above, with the Data Protection Officer working closely and effectively together with the information systems security department;
- organisational: the centralisation of applications and the data centre facilitates business continuity planning. This plan is managed and understood by the infrastructure teams responsible for the redundancy of the network devices and server;
- project: the personalisation of applications, the effectiveness of solutions implemented and the pragmatism of project leaders who listen to their internal customers form the third category;
- technical: network monitoring, access control and round-the-clock user support round out the risk management system.

Lastly, the risks associated with outsourcing are addressed through a rigorous selection process and by contracts and management to ensure that security and confidentiality aspects are always taken into account by subcontractors.

Even though there is still room for improvement in the information security, in all companies, because threats are constantly changing, a satisfactory level has been achieved within the Group. Security will be further enhanced by projects such as standardised encryption, more detailed oversight of data export procedures, continuous improvement of security processes by the Head of Information Systems Security, and compliance management processes conducted by the Data Protection Officers.

Infrastructure reliability

ORPEA has a Tier 3+ data centre (classification related to electrical circuits used for power and cooling distribution). The data centre is currently being certified (ASIP) for Health Data Hosting (HDS). The data centre is highly secure and supervised, featuring:

- CCTV, access control and a fire extinguisher system;
- a supervised IT infrastructure;
- full data backups;
- a secure, reliable service architecture based on tried and tested procedures;
- a technical escalation plan with degraded-mode solutions;
- a disaster recovery plan at a backup data centre;
- a team on call round-the-clock, every day of the year.

Standard certification agreement

In France, the Information System Security governance framework is based on the ISO 27001 information security management standard, the code of practice for information security controls (ISO 27002) and the information security risk management standard (ISO 27005). This framework takes into account specific "sector of activity" aspects (Code of Public Health, Code of Ethics, Social Security Code, etc.) and the compliance of data processing operations with the Data Protection Act (CNIL).

The Swiss subsidiary stores its data in a Swiss data centre in view of the local legislation.

ORPEA has sought to and still intends to apply ISO 27001 safety management systems and ensure data processing compliance under the Data Protection Act (and the forthcoming General Data Protection Regulation), both in France and in the other countries it serves.

Protection of personal data

Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the "GDPR") is mandatory and directly enforceable from 25 May 2018. Accordingly, French law no. 78-17 of 6 January 1978 on data protection has been overhauled to make it compatible with the GDPR in all respects.

Since ORPEA conducts its business activities in the European Union, the GDPR applies to the personal data processing activities conducted in its name and on its behalf.

ORPEA decided to take the opportunity created by the introduction of the GDPR to demonstrate its attachment to lawful and transparent data collection in good faith and to guarantee the security of the data it processes.

In practical terms, to ensure that its activities comply with the data protection rules, ORPEA has appointed a Group Data Protection Officer (DPO) responsible, through close cooperation with all its teams, for:

- guarding against legal risks more effectively: by reviewing contractual commitments in the light of appropriate technical and organisational for maintaining data security and confidentiality (together with the legal department);
- increasing the attention paid to ethical aspects within the Group: by contributing to the work of the innovative project management committee (along with the medical, legal, nursing and care departments);
- making sure data processed is kept only for an appropriate length of time (in conjunction with project leaders);
- making data more secure: by drafting a risk assessment form (in conjunction with the Head of Information System Security), a charter of best IT practices (in conjunction with the quality, human resources, cybersecurity, communications and legal departments);
- honing and consolidating best practices: by holding training sessions for individuals processing personal data and making educational tools available *via* the Espace CIL area of the applications portal;
- running a network of local DPOs within ORPEA's business units to ensure data processing complies with the local legislation.

2.6.3.8 MANAGEMENT OF THE RISK ARISING FROM SUBCONTRACTORS AND SUPPLIERS

Risk identification

Although the ORPEA does not consider itself to be dependent on any of its subcontractors or suppliers, it could be affected were one or more of them to discontinue their activities, cease payments or deliver lower-quality products or services. Such an occurrence could diminish the quality of ORPEA's own services or increase the expenses it incurs, especially if it had to replace the defaulting subcontractors with more costly service providers.

Risk management

This risk is reduced primarily by the Group's desire to keep most of its functions in-house, including food catering, works, and cleaning.

ORPEA has a central purchasing department that has managed its purchasing policy for more than 15 years and supports the purchasing departments of subsidiaries outside France. Its mission goes well beyond merely selecting suppliers or subcontractors. The department monitors the quality of suppliers, keeps a tight grip on its costs, implements Group-wide purchasing procedures, and contributes to the successful integration of the new facilities.

Not only does this purchasing policy streamline costs, it also safeguards traceability and, more broadly, the quality of products and services (food, outsourced laundry services, medications, medical devices, etc.).

The Group is careful not to rely on a single provider for its supplies or services, thereby reducing the risk of temporary lapses in the quality of services provided should there be a change in supplier.

2.6.3.9 RISK ARISING FROM THE DEPARTURE OF KEY MANAGERS

ORPEA's reputation is based on the experience and knowledge of its management team in creating, managing and integrating specialised long-term care facilities.

Its continued development depends largely on the involvement of its key managers in future years.

To limit the disruption that could be caused by the departure of a key employee, ORPEA has always endeavoured since its inception 25 years ago to build up and retain high quality, experienced teams.

With this in mind, the continuous training policy, and in particular the Cadrélan programme established in 2008 in partnership with the ESSEC and later with the ESCP business schools, helps ORPEA to hone the skills of employees who may, in time, be transferred to new positions within the Group.

For the past three years, ORPEA has introduced bonus share allotment plans covering most of its senior executives in a bid to retain and motivate them.

In conjunction with an internationally renowned specialised consulting firm, ORPEA has drawn up a succession plan for its key senior executives and introduced an active talent management programme.

2.6.4 FINANCIAL RISK MANAGEMENT

2.6.4.1 MANAGEMENT OF CUSTOMER RISKS

ORPEA's exposure to customer risk is limited, as its pricing is regulated.

In nursing homes, about three-quarters of revenue is paid in advance by residents and/or their families. The customer risk is therefore spread across all the residents in ORPEA's facilities, and so no one resident is a significant customer for the Group. To guard against the risk of unpaid invoices, the Group's nursing homes require all new residents to provide a security deposit plus a guarantee from a third party, where appropriate.

In post-acute and rehabilitation hospitals and in psychiatric hospitals, revenue is received from the social security authorities, private insurance companies, such as mutual insurers in France, and directly from patients themselves. To guard against the risk of default or late payments, including by public and private insurance bodies, the Group closely monitors the billing and collection process, with a centralised collection service.

2.6.4.2 CREDIT, LIQUIDITY AND CASH FLOW RISKS

Liquidity risk associated with the ORPEA group's debt

Since 2009, ORPEA has diversified its portfolio of borrowings by issuing bonds. This policy of diversifying and optimising the financial structure continued in 2017, with the Group taking advantage of the record low level of interest rates and the strong interest it has attracted from banks and investors. By virtue of its track record and the resilience of its activity to the economic environment, ORPEA boasts an attractive risk profile for lenders.

ORPEA's net debt came to €4,413 million at 31 December 2017 (excluding debt relating to assets held for sale), and broke down as follows:

- €641 million in net operating debt, resulting in a limited operating debt/EBITDA ratio of 2.2x;
- €3,772 million in net real estate debt secured by a real estate portfolio conservatively valued at €4,970 million based on a capitalisation rate of 6.0%.

Thanks to the growth in the bond market in Europe, ORPEA's financing now comes from five sources:

- financing for operating properties through finance leases or bank loans typically repayable over a period of 12 to 15 years;
- financing for properties or business acquisitions through private bond issues with maturities ranging from 5 to 14 years;
- financing for properties or business acquisitions through *Schuldschein*-type financing with maturities ranging from 5 to 10 years;
- financing for the acquisition of facilities, operating licences, etc., mainly through bank loans repayable over seven years;
- financing for properties recently acquired or under redevelopment or construction provided by bridging loans.

  Bridging loans comprise financing lines dedicated to a specific project and general bank credit lines. The intention with these properties is either to sell them to third parties or to keep them, in which case they are usually subsequently refinanced under finance leases.

In early 2018, the Group completed an inaugural €400 million public bond issue, tapping into a whole new pool of credit investors.

ORPEA only enters into bilateral loan agreements with banks, *i.e.* without syndication, which ensures fluidity in repaying its borrowings by avoiding major repayments at the end date.

The nominal amount of loans arranged by the Group cannot exceed €45 million excluding bonds and *Schuldschein* financing.

The repayment schedule is presented in Note 3.12 to the 2017 consolidated financial statements.

Interest-rate risk associated with the ORPEA group's debt

Most of the Group's debt consists of domestic debt carrying floating rates of interest, and so it is exposed to the risk of an increase in short-term rates in the euro zone.

The Group's strategy is to hedge almost all of its consolidated net debt against interest-rate risk. To do so, the Group uses a portfolio of financial instruments in the form of interest-rate swaps, under which it mainly receives three-month Euribor and pays a fixed rate specific to each contract, and interest-rate options (caps, collars, etc.). The Group applies hedge accounting under IAS 39, and these transactions qualify as cash flow hedges. Unrealised gains and losses arising from the remeasurement of these derivatives at fair value are recognised in equity at the end of the reporting period.

Interest rate derivatives

At 31 December 2016, the average notional amount of the derivatives portfolio based on a 1-year maturity was €2,230 million.

At 31 December 2017, the average notional amount of the derivatives portfolio based on a 1-year maturity was €2,204 million. As at 31 December 2016, the portfolio comprised fixed-for-floating (mainly three-month Euribor) interest-rate swaps and interest-rate options. These derivatives have either a constant or decreasing nominal profile.

Analysis of sensitivity to fluctuations in interest rates

The impact of a +/- 1% shift in the yield curve on the Group's earnings derives from:

- the amount of floating-rate debt net of cash *via* fluctuations in interest rates;
- changes in the fair value of hedges.

The fair value of its hedging instruments is sensitive to changes in interest rates and volatility trends. Volatility is assumed to remain unchanged for the purposes of this analysis.

At 31 December 2017, ORPEA's net debt amounted to €4,413 million (excluding debt relating to assets held for sale), of which 32.24% was arranged at fixed rates and the remainder at floating rates.

Including the impact of hedging arrangements:

- a 1% (100 basis point) rise in the yield curve would increase the Group's financial expense by €2.4 million (before tax and capitalisation of financial expenses);
- a 0.2% decrease (20 basis points given current interest rate levels) would have no impact on financial expense.

Details of the Group's hedging positions are provided in Note 3.14.1 to the 2017 consolidated financial statements.

Counterparty risk

The use of hedging products to limit interest-rate and currency risk exposes the Group to counterparty risk. Counterparty risk is the risk of having to replace a hedge at current market rates in the event that a counterparty defaults. To limit counterparty risk, ORPEA enters into hedging transactions only with the largest international financial institutions.

Currency risk

ORPEA has little exposure to currency risk, since 92.8% of its 2017 revenue derived from the euro zone. ORPEA generates 7.2% of its revenue in Poland, the Czech Republic, China and above all Switzerland, where it reinvests most of its profits in future developments, thereby reducing currency risk.

Consequently, currency risk does not have a material impact on the Group's operations, the results of its operations or financial position.

2.6.4.3 LEGAL RISKS: LEGAL AND ARBITRAGE PROCEEDINGS

The Group is not aware of any exceptional event or litigation, including in the recent past that could have a material adverse effect on its assets and liabilities, financial position, business activities or the results of its operations.

To the best of the Group's knowledge, there are no governmental, legal or arbitration proceedings that may have or have had in the recent past significant effects on the Group's financial position or profitability.

2.6.5 COMPLIANCE RISK MANAGEMENT

2.6.5.1 APPLICATION IN FRANCE OF THE SAPIN II LAW ON TRANSPARENCY, THE FIGHT AGAINST CORRUPTION AND THE MODERNISATION OF BUSINESS LIFE

Risk identification

Since 1 June 2017, ORPEA has had to comply with the Sapin II law since it falls within its purview, having over 500 employees and revenue of over €100 million. The legislation aims to enhance the transparency of democratic and business life, to combat corruption more effectively (including through the creation of a national corruption prevention and detection agency in France) and to modernise economic life.

Risk management

ORPEA had been working on transparency and corruption prevention in both private and public life long before the Sapin II legislation came into effect. Its executive management team has always adopted a clear and no-compromise position on these issues, with its zero-tolerance policy. Given the growing importance of these issues, ORPEA's expansion into new countries and the financial and reputational issues potentially arising from the law, executive management decided to establish a dedicated team to work on compliance. To this end, it has appointed a Chief Compliance Officer (CCO) reporting to both the risk department and the legal department.

The CCO's role is to ensure that ORPEA complies with the law and regulations, as well as with its internal policies. To do so, the CCO identifies and organises the compliance efforts already carried out within the Group and integrates them within the internal control framework. Part of the CCO's remit is also educational because the role can only be successfully established within the Group if the person appointed to it has a clear vision of the objectives and corporate culture, is supported by management and is able to get all the organisation's employees fully behind the compliance programme.

To fulfil the requirements of the Sapin II law, ORPEA has addressed the following eight areas in which it requires action:

- corruption risk mapping: ORPEA's approach has been to conduct a broader mapping of compliance risks than is required by the Sapin II law with a view to harnessing the results to gain deeper insights into compliance risks in the broad sense of the term. For the purpose of the risk mapping, the teams applied the Group's risk mapping methodology to make sure existing and future mapping exercises are all conducted on a consistent basis;
- formal definition of a code of conduct: ORPEA had already drafted several charters and codes governing conduct at its head office and facilities, both in France and around the world. In addition, an all-encompassing code of conduct illustrating the various types of unacceptable behaviours, including those likely to constitute corruption or influence peddling, has been drafted. The plan is for this code of conduct to be incorporated in ORPEA's internal rules and regulations and to circulate it *via* the Group's corporate website during the first half of 2018;
- the introduction of a disciplinary framework under which employees are penalised for breaches of the Group's code of conduct: ORPEA's internal rules and regulations and its code of conduct have aligned the provisions of the code of conduct with the penalties provided for in the internal rules and regulations;

- the introduction of a training framework for executives and employees with greatest exposure to the risks posed by corruption and influence peddling: ORPEA believes that its training policy is a key pillar in its approach (see section 2.7.1 on training). The anti-corruption and influence peddling aspect forms part of the same drive, with training provided for all employees concerning the code of conduct and special sessions arranged for employees with the greatest exposure to these threats to adapt and strengthen the key messages;
- deployment of an internal whistleblowing framework intended to handle reports from employees concerning behaviours or situations breaching the code of conduct: ORPEA worked during 2017 on introducing a whistleblowing system that will be rolled out together with the code of conduct in the first half of 2018. Training will be arranged for employees;
- formal establishment of procedures evaluating the position of customers, top-tier and suppliers and intermediaries in the risk mapping: Owing to its growth and international expansion, ORPEA has naturally put an effective internal control framework in place to cover these aspects. In parallel, the risk mapping exercise has helped to pinpoint areas for improvement, for which action plans have been drawn up;
- establishment of internal and external accounting control procedures to ensure that the Group's books, registers and accounts are not used to conceal corruption or influence peddling activities. ORPEA is fully transparent vis-à-vis its Statutory Auditors, who are key partners for identifying this type of practice. In addition, internal control principles have been rolled out to segregate duties and delegate powers to prevent any occurrences of this type of risk;
- incorporation of the measures implemented within an internal control and assessment framework. ORPEA decided to step up and restructure its risk management in 2017, and a new internal control reference framework was established (see section 2.7.3). This new framework builds in the Group's key controls, including compliance controls, to make sure it is implemented properly and to conduct regular controls.

2.6.5.2 HANDLING OF COMPLIANCE RISKS FALLING WITHIN THE SCOPE OF THE SAPIN II LAW

Risk identification

By virtue of the nature of the Group's activities and the regulatory changes that have taken place, ORPEA has taken a much broader approach rather than merely addressing the compliance risks covered by the Sapin II law. Accordingly, the Group has concentrated its efforts on various areas not related to Sapin II, but providing tighter control over risks in the following areas:

- anti-money-laundering;
- GDPR compliance;
- the duty of vigilance.

Risk management

To prevent the risk of money-laundering, ORPEA has introduced several systems integrated with all the processes for handling this risk on a day-to-day basis when third parties such as intermediaries, suppliers, partners and residents or patients are selected. The risk arising from residents or patients is diminished by the fact that taken individually they do not account for significant amounts.

Keeping the data it holds secure has always been a priority for ORPEA. As presented in section 2.6.3.7, its IT infrastructure has been designed to manage this risk, and the Group strives to apply the most exacting standards in this extremely complex environment. Reflecting its commitment to data protection, ORPEA set up the data protection unit within the information system performance and compliance department. This unit has been a driving force within the Group and has led its efforts to comply with the GDPR.

Its duty of vigilance requires it to formally draw up a vigilance plan, which is implemented on a daily basis by the Group. A copy is included in the appendix to this management report. This plan includes reasonable due diligence measures aimed at identifying risks and preventing serious breaches of human rights and fundamental freedoms, the health and safety of individuals and the environment, including, but not only arising from the activities of the Group or of companies that it controls directly or indirectly, and/or the activities of its customary subcontractors and suppliers.

Conflicts of interest represent sensitive issues, and a genuinely ethical approach involving intelligent and responsible decisions is required to resolve them given the complexities of the business world. Generally speaking, conflicts of interest should be avoided. That said, where a conflict of interest has arisen, it is essential for ORPEA and all its employees to be able to respond appropriately and to ensure that all involved act with integrity and uphold the Group's values.

2.7 INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES IMPLEMENTED BY THE GROUP

As part of its activities, the Group is exposed to a certain number of risk factors listed in the Risk management section above.

SCOPE AND OBJECTIVES OF INTERNAL CONTROL

Internal control is a framework applicable to the Company and its consolidated subsidiaries, which is rolled out across all its business units and aims to provide reasonable assurance that:

- the strategic priorities set by executive management are actually executed;
- the laws and regulations applicable to the Group's facilities are complied with;
- internal procedures and protocols are applied effectively and efficiently;
- controls intended to control and mitigate risks are understood and adopted across the Group, and appropriate actions are implemented;
- the Group's assets are valued appropriately and measures are taken to safeguard them;
- the information produced is reliable, comprehensive and of a high quality, including the Group's financial and accounting information.

The internal control framework should provide a sound basis on which the Group can continue to expand and deliver further improvement in its financial and operating performance in a control environment tailored to its business activities.

More broadly, this framework plays a role in controlling the Group's business activities, the effectiveness of its operations and the efficient use of its resources.

As with any control system, it cannot ensure with absolute certainty that these objectives will be achieved, but aims primarily to create the best possible conditions for achieving them.

The internal control environment, with its Group-wide rules, procedures and charters, provides a framework for a structured and centralised organisation that aims to safeguard operations as far as possible and, secondly, to react as effectively as possible should a material adverse event occur.

The Group's principal risk factors arising from its business activities are presented in section 2.6 of this document.

2.7.1 CONTROL ENVIRONMENT

The internal control framework is predicated on the control environment, which forms the cornerstone of all the other components of internal control.

The parent company and the Group's senior managers strive to create and maintain an environment that makes employees aware of the importance of internal control.

Compliance with ethical standards and best practices is the bedrock underpinning ORPEA's control environment.

COMPLIANCE WITH ETHICAL STANDARDS AND BEST PRACTICES

The Group has drawn up a code of conduct (due to enter force in the first half of 2018) and quality charters setting out its values and best practices. The core values include universal respect for people, trust, a sense of responsibility and high standards of professional ethics as part of a broad-ranging care relationship and ethical commitments.

These values are closely associated with its activities primarily based on interpersonal relationships and that rest not only on the trust established by the ORPEA Group and its employees with its residents/patients and their families, but also on fully transparent relationships with third parties, suppliers and the public authorities.

ORPEA has introduced three key documents prompting each and every employee to consider very carefully how they should behave vis-à-vis third parties, residents, patients and their families:

- the code of conduct, which establishes ORPEA's commitments to all its stakeholders;
- the quality charter, which sets forth ORPEA's commitments to its residents and their families;
- the staff commitments charter, which contains the commitments made by all staff in each facility to residents, patients, families and their own colleagues.

These principles could not be put into action without a robust training policy supporting employees with implementing the best practices contained in these documents.

Code of conduct

ORPEA's code of conduct is founded on the principles fundamentally entrenched in its make-up and on those laid down in the following international and national agreements:

- the 1948 Universal Declaration of Human Rights;
- the International Labour Organization's Fundamental Conventions;
- the OECD Guidelines for Multinational Enterprises;
- the United Nations Global Compact;
- the United Nations Convention against Corruption;
- WHO Principles;

- the HAS (French health authority) reference framework;
- the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

These guiding principles are complemented by ORPEA's core values, establishing common commitments applying to all its stakeholders, including executive management, employees, partners, subcontractors and suppliers. The code will be made available towards the end of the first half of 2018 on the Group's corporate website to facilitate its distribution in a fully transparent manner. Other workstreams, such as increasing the penalties for breaches of the code of conduct and introducing a reporting and whistleblowing process (presented below), have also been launched to flesh out the arrangements backing up the code.

Quality Charter

The Quality Charter, which covers all the facilities in France, brings together all its commitments to implement best practices in accommodation, care, meals, bedrooms, accessibility, information, activities and employee training for the benefit of its residents. The charter is displayed in each facility, presented to new residents and their family upon their admission, and employees are regularly reminded of the importance of honouring the commitments laid down in the charter.

ORPEA's hospitals in France apply the hospital patient charter, a nationwide charter in force in all healthcare facilities, including clinics and hospitals.

Outside France, each business unit has adopted and then introduced at its facilities and hospitals either its own charters reflecting ORPEA's Group-wide commitments or charters drawn up by the relevant national authorities.

Staff Commitments Charter

The Staff Commitments Charter is worked on by all the teams at each facility, and so it is facility-specific. Each team is helped to draft their charter by an expert facilitator specially trained in leading ethical discussions. The teams meet regularly over a period of close to six months to discuss their ideas and their views about the core values underpinning best practice. Every staff member (regardless of their rank or job within the facility) attends these discussions to help shape an Ethics Charter. Once the process has been completed, the entire staff formally mark its introduction, and the charter is put on display in the facility.

The commitments made by the team carry more weight and command more respect because employees themselves have chosen and formally undertaken to uphold the ethical values. The commitments are then reinforced by the Group's training policy.

Training

The Group's executive management believes employee training is a key tool for ensuring that staff embrace and buy into internal control.

Special training in the charters and procedures is regularly delivered at various levels of the Group. Dedicated training sessions are set to be arranged in 2018 on the code of conduct to make sure it is properly understood and that its principles are embraced right across the entire organisation.

The Group also strives to provide an effective induction for its new employees so that they rapidly take to their new role, with facility managers a key priority. When they join the Group, they are given support for several weeks during their induction and they shadow an experienced manager in his/her own facility to learn the job by seeing how it is done first-hand.

More generally, the Group's executive management believes that employees are better able to share, adopt and pass on best practices and the Group's values on the front line if they are given an opportunity to enhance their own knowledge and skill sets, and so it has a policy of continuous development (training leading to qualifications and diplomas, mini-training courses, and e-learning).

Moreover, training in improving working conditions aims to foster a calmer and more effective work environment, paving the way for better care for ORPEA's residents and patients.

2.7.2 STRUCTURE OF THE INTERNAL CONTROL FRAMEWORK

A CENTRALISED, PYRAMID STRUCTURE SUPPORTED BY LOCAL OFFICERS

ORPEA has centralised, pyramid structure, which helps to ensure that the guidelines issued by executive management are implemented. The internal control framework is coordinated on a Group-wide basis, with each of the business units having their own internal control officer.

Under this model, support functions are centralised at the French headquarters and centralised to some extent at the headquarters of the subsidiaries outside France. The Group's support functions include purchasing, management control/finance, operations/quality/medical, construction and maintenance, human resources, legal, IT and internal control/compliance. They are located centrally at the administrative headquarters in France, and centralised to some extent at the country headquarters elsewhere. The international subsidiaries rely on the headquarters in France for support functions that their own headquarters does not have.

As part of its international expansion, the Group has introduced a plan to embed the Group's policies and procedures by hiring International Managers. The ultimate goal is to tighten up the integration of subsidiaries and entrench internal control. These International Managers report to the head of each support function and provide a source of support for operational teams in each country and help to standardise practices in line with ORPEA's business model. Since a dedicated internal control and risk management team was set up (see section 2.7.3), the International Managers have been able to draw on a standard reference framework and a risk-oriented methodology and key controls underpinned by their approach, which focuses efforts on certain points specifically identified as being areas at risk.

This organisation provides:

- a more finely tuned risk management methodology and a sharper focus on key controls and potential areas for improvement as a result of the overhaul of internal control;
- international support from business experts *via* the International Managers who have a perfect grasp of the business constraints and the Group's (existing and future) solutions;
- rigorous monitoring of the key management and quality performance indicators *via* the pyramid structure.

2.7.3 INTERNAL CONTROL PARTICIPANTS AND BODIES

EXECUTIVE MANAGEMENT

Executive management plays a crucial role in internal control. The "tone at the top" is vital for establishing, leading and passing on best practices in the area.

ORPEA's executive management has always adopted a very clear stance, never leaving any doubt about the imperative of ensuring that key controls are in place and that risk factors have been identified, ranked by their importance and appropriately dealt with.

Under this approach, which consists in ensuring that effective internal control and risk management procedures are designed and implemented within the Group, ORPEA made the decision in 2017 to reorganise risk management by pooling resources in a dedicated unit charged with effective risk management and thus preventing anything from disrupting the smooth operation of the Group.

EXECUTIVE COMMITTEE

The role of the Executive Committee, which serves as a forum for discussion and analysis, is to review strategic issues and to ensure that the entire Group operates effectively and to promote better internal communication of the Group policies. It meets on a quarterly basis.

Any decisions made by the Executive Committee are implemented through action plans, which are then followed up at its subsequent meeting.

The Executive Committee members are the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Head of Human Resources, the Corporate Secretary, the International Secretary, the Head of Medical Affairs, the CEO of CLINEA, responsible for the international strategy of the medical facilities, the Head of International Operations and the Head of Investor Relations.

Twice a year, the CEOs of the business units are invited to Executive Committee meetings.

OPERATIONS COMMITTEE

Operations Committee meetings are held on a monthly basis and are attended by the Chief Operating Officer, the divisional heads, the Corporate Secretary and also the regional managers and heads of the support functions, where appropriate based on the agenda.

Similar meetings are also held at the subsidiaries outside France every month and are attended by the Chief Operating Officer and the heads of the relevant subsidiaries.

These committees consider any issues arising in relation to the Group and its activities. Their discussions include an update on action plans in progress and for implementation, budgets, quality and the training plan. They also review the Group's commercial performance and its main expense items.

The decisions made during these operations committee meetings are always passed on and explained to facilitate their implementation *via* monthly meetings with divisional managers, regional managers and facility managers. These meetings are scheduled over the same week across the various regions to ensure that information is passed on to all facilities concurrently and thus that decisions made are put into action rapidly.

Action plans based on the decisions approved by the operations committee are drawn up by each division and region so that attainment of the targets set can be monitored on a monthly basis. Reporting on achievement of these targets is prepared in advance of every operations committee meeting so that the concrete results obtained can be discussed and any further remedial action necessary taken.

AUDIT COMMITTEE

The Audit Committee analyses and assesses internal control procedures, including those related to the processing of financial information in connection with the preparation of the Group's financial statements. The Committee is also responsible for reviewing and evaluating risk mapping and for monitoring the effectiveness of internal control and risk management systems.

As part of the monitoring of the effectiveness of internal control, the Audit Committee is informed of the results of the Statutory Auditors' procedures concerning internal control. To carry out its duties effectively, the Audit Committee may, should it deem necessary, ask the Statutory Auditors or Company's managers responsible for preparing the financial statements and for internal control to appear before it. It also maintains close ties with the audit, risk and internal control department.

Its composition, duties and activities are presented in section 4.1.3 of this document.

The Audit Committee reports on the performance of its duties to the Board of Directors.

AUDIT, RISK AND INTERNAL CONTROL DEPARTMENT

In 2017, ORPEA's executive management decided to scale up and flesh out the audit, risk and internal control department to address the new risk management challenges it faces, especially as it expands internationally. The department now has strategic units – a permanent control unit and a periodic control unit.

Permanent control unit

The permanent control unit is responsible for handling three additional functions – risk management, internal control and compliance.

Risk management is responsible for formulating and coordinating ORPEA's approach to managing risks, including by implementing appropriate measures to identify risk factors. This involves risk mapping, monitoring, and the organisation of Key Risk Indicator (KRI) reporting to share the information gathered *via* a dedicated risk committee and through a summary risk debriefing provided to executive management.

The role of internal control is to establish the internal control rules applicable to all the Group's entities so as to standardise key controls and safeguard its various activities. To achieve this, a framework known as the "internal control standards" has been introduced within ORPEA, backed up by training and the appointment of internal control officers at the business units to ensure the programme extends to the whole organisation.

Compliance is responsible for focusing on sensitive issues related to corruption, conflicts of interest, fraud and third parties, and for analysing the major areas of improvement anticipated on a daily basis.

Permanent control's three functions are centralised at the head office, but are also represented outside France by local correspondents dedicated to control activities, ensuring that ORPEA's best practices are passed on and applied. They are also in charge of adapting the Group principles to fit the local environment.

Coordination between the central headquarters and the in-country teams is achieved through regular communication and visits to build these teams' sense of belonging to the Group and also to foster transparency on issues encountered locally.

Periodic control unit

The periodic control unit, which encapsulates the internal audit function, operates out of ORPEA's headquarters, with mobile teams covering the entire scope of the Group.

It performs its engagements in accordance with professional standards and aims to safeguard the quality of the internal control framework. Best practices are reported so they can be incorporated in the internal control environment, with recommendations issued to address weaknesses identified and regular follow-up.

This function operates independently and submits its conclusions to executive management and to the Audit Committee.

FINANCE DEPARTMENT

The finance department assists and monitors the management of the Group's finances by its operational staff. Its role is to maximise its profitability, manage its cash and produce reliable financial reporting for internal and external stakeholders.

The function is presented in greater detail below.

QUALITY DEPARTMENT

The quality department provides methodological assistance to facilities to ensure that they are able implement and monitor their own quality and risk management programme. It also supports facilities with their efforts to obtain certification and with internal assessments and external appraisals. To help with these tasks, it develops assessment and control systems, plus special training.

In particular, a quality and risk management committee meets every month to review implementation and adoption of best practices by the facilities. It also addresses any implementation difficulties encountered by facilities and proposes solutions to ensure that targets are met. The committee also considers internal control systems that need to be implemented to ensure that the Group policy is observed.

LEGAL DEPARTMENT

The legal department advises and assists executive management and all the operations and functional departments with safeguarding the Group's interests and assets from a legal perspective. More specifically, the department is tasked with identifying legal risks and managing them as effectively as possible. It is also responsible for compliance by the Group's various activities with their statutory and regulatory obligations.

It is organised into three units:

- the operations unit, which assists the Group's facilities with any operational issues, such as handling complaints where the facility may potentially be held liable, managing litigation, and negotiating or terminating contracts;
- the real estate unit, which interfaces between the Group's real estate management and construction units;
- the corporate unit, which is responsible for managing acquisitions and for corporate issues in general.

Units in contact with the supervisory authorities and the lawyers working in the Group's subsidiaries outside France also provide support to the legal function.

COMPLAINTS PANEL

The complaints panel, which is coordinated by the Group's Head of Medical Affairs, the Head of Legal and the Heads of the Supervisory Affairs units for nursing homes and hospitals, conducts a regular review of complaints made about the Group's facilities. It strives to understand the root causes and to address them. Where appropriate, it coordinates any investigations in the field and any legal action required in response.

In addition, the panel is tasked with making recommendations based on an analysis of the complaints submitted to it and identifying any remedial measures required for procedures, the Group's operations or at the relevant facilities. The panel presents its action plans to the operations committees, which oversee their implementation in the field and inform the quality department, so that the corresponding procedures are updated.

CRISIS MANAGEMENT UNIT

A crisis management unit has been designed and set up by the Group to ensure the swiftest possible response to any incident or adverse event occurring at its facilities that threatens to implicate it and/or tarnish its image.

A swift response is crucial to pinpoint the exact scope of such incidents in terms of their consequences and their severity. The top priority is to make sure that they do not snowball in size.

The crisis management unit, which is made up of the Chief Operating Officer, the Head of Legal, the Head of Quality and the Head of Medical Affairs, the Head of Communications, the Head of Supervisory Affairs, and the Head of Audit, Risk and Internal Control provides support and guidance to the business unit manager and/or regional manager, and to the relevant facility manager. It also launches an immediate in-depth investigation.

In parallel, it aims to establish contact with the complainant and/or with the relevant parties. The members of the crisis management unit also establish contact with the supervisory authorities and inform them of the incident once a preliminary investigation has established the basic facts.

DEVELOPMENT COMMITTEE

The role of the Development Committee is to give the go-ahead to development projects, which may include the creation of new facilities, acquisitions and redevelopments. It also conducts progress reviews on development projects in progress. It meets several times each month, at the request of the business units and/or development managers and is attended by executive management, Heads of Development, Medical Affairs, BU representatives (CEO, CFO, COO, Head of Development) and the Coordinator of Development Projects. Where required, the Development Committee may call on the operations, finance, construction and maintenance departments.

The merits and shortcomings of each project are considered in detail, before the Committee decides whether or not to continue it.

CONSTRUCTION COMMITTEE

The Construction Committee's remit is to review construction prior to the submission of the application for a building permit, give the go-ahead for the launch of the construction project and to approve any cost overruns and/or delays in the construction timetable. It also conducts progress reviews of projects (timetable and budget).

It meets once a month on a fixed date and is attended by the Heads of Building Corporate Services, IM Construction and Maintenance in charge of the country and at least one representative from the business unit (CEO, CFO, COO, Head of Construction and Maintenance). From time to time, the development project coordinator and real estate management control coordinator may also attend.

Projects may only be given the go-ahead by the Construction Committee if they form part of the programme previously approved by the Development Committee.

2.7.4 INTERNAL CONTROL FRAMEWORK FOR OPERATIONS

CONTROL ACTIVITIES

Control activities, which are effected at every tier of the organisation, aim to safeguard operations and to enable ORPEA to achieve its objectives while taking only an acceptable level of risk. If they are to be relevant, control activities must be proportionate to the goals they seek to achieve, and they may cover either the entire organisation or be specific to just one business (to meet specific needs).

Control activities must not be reduced to a series of documents or information because all those involved in the organisation are stakeholders in these control activities. The control activities may take various forms and involve implementation of a procedure, a shared or supervised control action.

Nonetheless, ORPEA has drafted internal rules and crisis management plans so that Group-wide risk factors are addressed in a consistent manner or in respect of which management has adopted a clear stance to uphold the Group's values. Risk mitigation methods include reduction of the impact, prevention and transfer when the very nature of a risk factor means that it cannot be addressed in any other way.

It is essential for the nature of the Group's activities to be taken into account because it operates in a highly regulated environment.

CORPUS OF INTERNAL RULES

Rules issued by executive management

Executive management has stated the desire for the corpus of rules to apply to everyone within the organisation from the top down. It is subject to the acceptance of and respect for rules and principles that apply to all countries. They are the rules of procedure providing the framework for delegation of powers, reporting, governance and compliance that has to be adopted locally by the management team. The BU CEOs have to sign a statement certifying that the rules of procedure have been abided by, and so they play a leading role in making sure the rules of procedure are properly applied.

Rules issued by support functions drafted with assistance from the internal control unit

The internal control unit is responsible for coordinating the internal control framework under the supervision of the audit, risk and internal control department. Accordingly, it has established rules with the business lines to ensure that best practices are catalogued in an internal control reference framework. This reference framework dovetails perfectly with the rules of procedure to maintain overall consistency and is built around the following priorities:

- educational tools to ensure full buy-in from teams that have to abide by these principles. In practice, these tools are largely translated into flowcharts and mind maps that can be used to gain insights into the key stages and key controls, and to identify the individuals/functions responsible for implementing them. To make sure these principles are abided by properly, ORPEA's internal control holds workshops across its various business units, which are backed up with action plans to achieve full compliance with the Group's principles while addressing specific local characteristics;
- the formal definition of rules in the "Internal control standards" handbook, which presents details of the various educational tools and illustrates them with expected theoretical controls, examples of how these controls can be applied, formal templates. etc. These standards are made available to all the Group's entities *via* a dedicated platform and also to the business units during the workshops;
- coordination of self-assessment campaigns based on the standards.

Rules issued by the quality department

The quality procedures, which are mandatory for the entire Group, cover a variety of events that may affect the smooth operation of the Group, its performance or reputation, or the safety of residents, patients and employees. These procedures contain preventive or remedial measures for managing such events.

The corpus is updated by the quality department whenever necessary and at least twice a year. It works closely with the operating departments and headquarters functions as part of a continuous improvement policy.

Each facility manager is given a copy of the corpus of procedures upon joining, together with the appropriate explanations. Facility managers are kept informed of any updates as a matter of course, and they are asked to provide written confirmation that procedures are applied in the facility under their charge.

Regular training on how to apply these procedures properly is arranged to promote the adoption of best practices by teams and sustain the drive to make sure they are abided by at all times.

The quality procedures are applied by all the Group's facilities in France and around the world, in every country where ORPEA operates. When ORPEA acquires an operation in a new territory, the corporate quality teams support the quality teams there with implementing and establishing its rules and best practices with the local teams.

CRISIS MANAGEMENT PLANS

Each facility has drawn up its own business continuity plan (BCP), which covers all possible incidents, accidents and disasters that could affect a facility and sets out how normal operation can be resumed as a rapidly as possible. Examples of crises include the H1N1 flu outbreak, or, more generally, any epidemic, a major weather event blocking access to the facility, or industrial action affecting a facility's operations.

The BCP is a planning tool for responding to a crisis situation outside the scope of the facility's normal operations. It lays down the actions to be taken in such circumstances. It aims to minimise the impact of a crisis on the Group's operations and restore order after disruption so that the business can return to normal as rapidly as possible.

The BCP is supported by a crisis management plan that catalogues all the human resources, equipment and logistics that can be called upon in the event of a health crisis. They also state the arrangements for setting up a crisis unit. The plans are submitted to the relevant authorities and also undergo scrutiny by the operating departments and the quality department.

As part of this organisation structure, the internal control framework is built around the implementation of Group policies in the field, checks to ensure that these are applied by the various tiers of the Group, including by means of assessments and audits, and analysis of the results of these checks with the support functions of the relevant headquarters to take any remedial measures required.

PROCESS FOR HANDLING MATERIAL ADVERSE EVENTS

A procedure for handling material adverse events states that all the Group's facility managers must inform the regional manager immediately as a matter of course of any adverse event. In line with the chain of command, the regional head then passes the message on to the business unit head and the Group's Chief Operating Officer.

The procedure is applied at every facility. The causes of the material adverse event are analysed so that preventative measures can be adjusted as necessary and remedial action taken to avoid an unusual event of this type from happening again. If required, the supervisory authorities may be informed.

ASSESSMENTS AND AUDITS

Self-assessments by facilities

Permanent control is founded on the continuous monitoring of the business activities by operational staff. It encompasses all the systems and measures taken on an ongoing basis to ensure that business activities can continue to operate securely in line with the laws and regulations.

To make sure this is the case, each facility conducts a self-assessment on a quarterly basis using pre-defined criteria applied across the Group. The results of these self-assessments provide input for the semi-annual audits of facilities by the regional departments to make sure that residents and patients are cared for properly at all times and that the care provided is commensurate with the Group's quality policy.

The results of these self-assessments and audits are then entered in a computer application used by all the facilities. This enables the BU departments and the quality department to check that these control processes are applied systematically. It also brings to light any recurring discrepancies in the application of best practices. Once such issues have been identified, a collective action plan can be drawn up and implemented.

External appraisals and certifications

In France, nursing homes and hospitals are subject to mandatory appraisals conducted on a regular basis by independent organisations and agencies.

The *Haute Autorité de la Santé* (HAS), an independent public agency with a scientific remit, conducts an inspection of hospitals every four years.

Nursing homes undergo an external appraisal every seven years by an outside inspection body approved by the ANESM (French national agency for quality and assessment of nursing homes).

Outside France, depending on the regulations in force in the various countries, ORPEA may comply with other types of certification, including in Spain and Switzerland.

The Group regards these appraisals, as well as being a regulatory requirement, as an additional opportunity to analyse how well its businesses are performing based on an objective, rigorous and impartial approach provided by the outside view of the assessors. Each facility's teams are involved in self-assessment tasks throughout the year in preparation for the appraisal process.

Through its approach, the Group makes the regulations applicable to its activities into an opportunity for continuous quality improvement.

Audits of facilities

In addition to the scheduled appraisals, the quality and medical department makes spot checks on facilities throughout the year.

The information obtained and conclusions drawn on the basis of these audits help to shape the Group's quality policy.

In addition, the buildings used by the Group's facilities are regularly audited to ensure that appropriate safety and maintenance procedures are abided by.

Satisfaction surveys

In line with the commitments laid out in the Group's quality charter, satisfaction surveys are carried out annually to gauge how the residents and their families feel about the quality of care provided and about the way the facilities are run. These surveys flesh out the information provided by the facility audits and provide a sound basis for devising what measures need to be taken to achieve continuous quality improvement.

2.7.5 INTERNAL CONTROL FRAMEWORK FOR THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

PARTICIPANTS IN THE FINANCIAL REPORTING PROCESS

Group finance department

The Group finance department assists and monitors the management of the Group's finances by its operational staff. It compiles all the accounting and management data through reporting. It also handles the process of consolidating and checking the data so that it can be used for management purposes and released to various internal and external stakeholders, such as supervisory authorities and investors.

It has implemented financial reporting and centralised treasury management systems and procedures applicable to all the Group's operational staff.

The Group finance department is organised into three sub-divisions – general accounting, consolidation and treasury – handling accounting and financial tasks under the leadership of the Chief Financial Officer.

In France, the accounting unit is organised into two sections, one handling general accounting, and the other handling supplier accounting. The consolidation process is overseen by the Group Head of Consolidation.

Finance departments of international subsidiaries

The finance departments of international subsidiaries have responsibility for overseeing accounting and management data for the country subsidiaries and reporting it to the Group finance department, which oversees them.

Cross-border cash flows are managed and coordinated by an international financial control unit.

Management control team

Under the oversight of the Chief Executive Officer, the management control team is responsible for preparing and tracking budgets in conjunction with the Chief Operating Officer, the BU heads and the works unit in relation to investment projects.

PROCESS OF PREPARING ACCOUNTING AND FINANCIAL INFORMATION

Given the ORPEA Group's major expansion in recent years, it has had to make continual changes to its internal organisation, procedures and information systems to rise to the challenge of producing high-quality accounting and financial information and meeting its reporting deadlines. As a result, the Group has steadily strengthened its organisation and its systems.

YEAR-END REPORTING

The finance department is responsible for preparing ORPEA's consolidated financial statements based on each entity's individual financial statements and the consolidation packages prepared by each country.

Each country has its own accounts and makes its own entries on a daily basis. The French accounting teams use Navision, which interfaces on a daily basis with Harmonie, pending full and final migration to Navision. Outside France, most of the Group's units use Navision.

The finance team of each facility also produces monthly reporting for ORPEA's Group finance department.

Interim and full-year consolidated financial statements are prepared, with the process being supervised by the Head of Group Consolidation and her team. Consolidated financial statements are prepared only for the interim and the full-year period.

The financial reporting process also involves all the accounting teams in France and around the world. It has three main stages:

1. Prior to the year-end date, a schedule of the key milestones is drawn up and sent to the various participants.
2. Each entity has to send in its individual financial statements within one month of the year-end date. In Spain, Switzerland, Austria, Germany, Belgium and Poland, the local teams prepare an initial set of consolidated financial statements for their sub-group (there are two consolidated sub-groups in Germany).
3. Once all the individual financial statements have been received, the consolidation department prepares the consolidated financial statements using special software. This task consists in verifying compliance with the statutory and regulatory requirements and confirming that accounting principles and standards are applied properly.

The Group finance department also conducts an ongoing review of changes in accounting standards, tax law and new statutory requirements. To assist its decision-making on technical points, the finance department may also call on other headquarters functions or on the services of external advisors.

ORPEA stays in regular contact throughout the year with its Statutory Auditors, which it may consult on certain specific technical issues, whenever the need arises.

BUSINESS AND FINANCIAL PERFORMANCE MONITORING SYSTEMS

Operational management control

The reporting system for the various business indicators continuously and consistently tracks performance trends at each of the Group's facilities and makes sure they stay on course to meet the targets they have been set.

The management control unit has a wide range of tasks, and it liaises closely with both the finance department and operating departments to:

- prepare an annual budget for each facility;
- prepare a monthly budget tracking and reporting system;
- develop new systems and enhancements to existing systems to improve responsiveness;
- carry out specific analytical tasks, such as budget simulations or adjustments.

The aim with budget preparation is to use an identical template for all facilities. This template is pre-populated by management control using the various existing databases. The budget is subsequently completed and amended by facility managers and regional managers. The budget is put together through ongoing dialogue between the operations departments and management control. Once validated, it serves as a roadmap for each facility and the management control can use it for ongoing monitoring purposes throughout the year.

A budget tracking document is prepared on a monthly basis monitoring trends in revenue and operating expenses. It also provides a basis for a monthly analysis of operating performance based on the financials.

This reporting is prepared by the 10th of the following month and includes payroll costs, revenue, other expense items and customer-tracking data.

This document is given to the Chief Operating Officer and to BU managers at meetings of the operations committee, which draws up action plans, where required, with the managers of the technical headquarters units (medical, social affairs, purchasing, catering and works).

Meetings are also held every month in each region to implement these action plans in conjunction with the relevant facility managers and to remedy any shortcomings.

The occupancy rate of all the facilities is tracked in real time *via* an intranet, which compiles all the data once a day.

Real estate management control

Special management control arrangements have been put in place for real estate and construction activities.

For each construction project or major facility redevelopment, an overall budget and schedule are prepared by the project contracting unit. This budget is entered into an internally developed database with a description of each entry. The budget is then converted into a contract, reflecting the agreements signed with the various participants. Invoices are entered on a daily basis, enabling the real estate management control unit to track expenditure and make sure the project keeps to its schedule.

Monthly reporting on each project is submitted to executive management and the project contracting unit, showing any delays to the schedule and variances from the budget so that the relevant remedial measures can be taken.

An annual budget is drawn up for maintenance spending at mature facilities, and a database is also used for tracking purposes.

Since September 2012, the real estate management unit has been scaled to handle all the administrative, accounting and financial aspects of the Group's real estate portfolio.

Treasury management

Treasury management is carried out on a centralised basis at each country's administrative headquarters. The Group's operational facilities do not make any payments, since all trade payables are handled by the headquarters.

The Group has placed restrictions on payments at the headquarters. In addition, only seven individuals at the Group headquarters have the authority to sign off on payments. Special powers and procedures have been put in place to cover these restrictions at the finance departments of the subsidiaries outside France.

The Group's cash flows are also monitored on a daily basis to spot any unusual transactions.

Cash pooling takes place automatically every night with a feed of bank data containing the previous day's transactions processed by cash management software.

AUDIT COMMITTEE

The remit of the Audit Committee is presented in section 4.1.3 of this document.

STATUTORY AUDITORS

The Statutory Auditors are responsible for reviewing the Company's accounts and financial statements and also those of its consolidated subsidiaries. This takes the form of:

- a limited review at the end of the first half of the financial year for ORPEA SA and the most significant subsidiaries;
- an audit at the end of financial year.

A letter of representation, signed jointly by the Chief Executive Officer and the Group's Chief Financial Officer and giving undertakings concerning the quality, reliability and completeness of the financial information, is given to the Statutory Auditors at the end of each reporting period.

Once they have conducted their review of all the financial statements and the methods used to prepare them, the Statutory Auditors give their opinion. They certify that parent-company and consolidated financial statements provide a true and fair view.

FINANCIAL REPORTING

Executive management has direct responsibility for financial reporting.

The annual and interim financial statements are made available to investors once they have been approved by the Board of Directors.

A reporting schedule is drawn up by the Group and published for investors (on the Company's website).

The investor relations and financial reporting website (www.orpea-corp.com) contains all the information available for investors, including presentations given to the financial community, press releases and regulated information.

Twice a year, executive management gives a presentation of the Group's results to the financial community.

The Group also provides development updates throughout the year and regularly meets with its shareholders and new institutional investors.

2.8 APPENDIX

2.8.1 APPENDIX 1: FIVE-YEAR FINANCIAL HIGHLIGHTS

	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013
SHARE CAPITAL AT YEAR-END					
Share capital	80,691,404	75,342,114	75,342,114	69,459,866	69,346,239
Number of ordinary shares in issue	64,553,123	60,273,691	60,273,691	55,567,893	55,476,991
Maximum number of additional shares to be issued					
Through bond conversion	0	4,503,369	4,448,097	8,957,216	8,330,165
Through exercise of subscription rights	0	0	0	171,572	246,016
KEY INCOME STATEMENT HEADINGS					
Revenue	792,094,399	723,748,182	687,048,320	625,094,135	552,525,700
Operating profit	72,128,666	64,149,083	53,920,720	47,478,199	46,678,323
Net finance cost	52,996,448	(17,188,304)	(27,450,495)	(32,760,096)	(34,357,301)
Pre-tax profit on ordinary activities	125,125,114	46,960,779	26,470,225	14,718,103	12,321,022
Net non-recurring items	(8,969,099)	(10,568,119)	(10,118,919)	(2,438,903)	(4,542,032)
Earnings before tax, depreciation and amortisation and provisions	146,632,512	69,367,946	52,387,470	37,933,410	25,167,519
Income tax	4,954,206	6,483,743	5,112,712	4,767,843	4,826,545
Net profit	111,201,809	29,908,917	11,238,594	7,511,357	2,952,446
Profit paid out to shareholders	71,044,955.30	60,273,691	54,246,322	44,454,314	38,833,894
EARNINGS PER SHARE					
Basic earnings per share	1.72	0.50	0.19	0.14	0.05
Diluted earnings per share	1.72	0.50	0.19	0.12	0.05
Dividend paid per share	1.10	1.00	0.90	0.80	0.70
STAFF					
Average headcount	9,643	9,219	8,735	7,910	7,520
Total payroll expenses	279,795,303	260,494,876	243,743,094	223,226,103	195,434,777
Total employee benefits	89,515,129	85,434,373	79,837,096	73,865,397	67,649,672

2.8.2 APPENDIX 2: VIGILANCE PLAN

INTRODUCTION

Ever since its inception in 1989, people have always been at the heart of everything ORPEA does, and it has endeavoured to deploy all the requisite human and technical resources for the well-being of its residents, patients and customers.

When people call upon the Group – either directly or *via* their family – they are temporarily or permanently in a frail condition, or their independent living skills are declining.

The ORPEA group can provide high-quality care or assistance, making sure that life can go on for its patients and residents with the help of its competent and dedicated teams, either in special accommodation or in their home.

ORPEA's core business is thus delivering care and services – by people, for people.

In this business, expertise is necessary, but not sufficient to provide the best care possible for residents, patients and customers, and so ORPEA attaches the same level of importance to interpersonal skills as to its know-how and expertise.

Aside from its high level of proficiency in care techniques, teams' top priority is to build a trust-based care relationship with each of its residents, patients and customers. All their daily activities are underpinned by this fundamental pillar.

Being a leading player in long-term care represents a key strength, but also a major responsibility because the Group operates in a sector in which gaining the trust of residents, patients, customers and their families, as well as the public authorities, is critical.

To this end, the Group undertakes to abide by the laws and regulations in force in all the countries in which it is present, and it expects the same commitment from its employees. In addition, it undertakes to observe the compliance rules applicable to health professionals working with the residents and patients in its facilities, as well as all those supported by its homecare teams.

In its code of conduct, the Group has established principles underpinned by those deriving from the following international conventions:

- the 1948 Universal Declaration of Human Rights;
- the International Labour Organization's Fundamental Conventions;
- the OECD Guidelines for Multinational Enterprises;
- the United Nations Global Compact;
- the United Nations Convention against Corruption;
- WHO Principles;
- the HAS (French health authority) reference framework;
- the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

In addition, the Group's executive bodies have over the past few years launched a programme intended to foster ethical behaviour meeting stringent integrity and compliance standards. This commitment has been put into action by implementing a risk management strategy and a compliance programme, backed by executive management's determination to cultivate a culture of integrity, transparency and compliance.

The vigilance plan launched by the Group has five pillars:

1. risk mapping by country, which aims to identify, analyse and rank risk factors arising from the activities of the parent companies and order-givers, their subcontractors and their suppliers;
2. regular procedures assessing the status of facilities, subsidiaries, subcontractors/suppliers with which ORPEA has an ongoing business relationship;
3. suitable risk prevention and mitigation actions guarding against serious breaches of human rights (health and safety) or environmental damage should be implemented, backed up by social and environmental audits;
4. a whistleblowing framework;
5. an operational framework for monitoring the measures implemented to prevent and evaluate their effectiveness.

2.8.3.1 IMPLEMENTATION OF THE GROUP'S VIGILANCE PLAN IS PREDICATED ON A RISK MAPPING IN FRANCE AND AROUND THE WORLD

The Group has launched a proactive approach to identify core business risks *via* a risk assessment underpinned by a policy of providing very high quality to its residents, patients and customers

This quality-led approach was designed not as a regulatory requirement, but as a fundamental driver of its business. ORPEA has long operated in a closely supervised and highly regulated environment owing to the nature of its business activities, which involves running facilities for the elderly requiring long-term care, post-acute and rehabilitation hospitals, and psychiatric hospitals. ORPEA has always prioritised expansion into countries in which a licence to operate long-term care facilities is required from a supervisory authority.

The processes for obtaining permits and the regulatory framework vary from one country to another. In addition to administrative permits, strict operational, construction, safety and environmental standards apply in the sector. Minimum ratios of nursing and non-nursing staff to residents and patients also have to be observed. Compliance with all these standards is closely monitored in all the countries where ORPEA operates by various national or local supervisory authorities.

ORPEA has identified several risks arising from the health and safety of the residents, patients and employees that may arise in its facilities. It has thus focused on several risk factors, such as building safety, the risk of mistreatment and abuse, and risks arising from care and food.

To keep these risks under control, the Group has implemented a proactive and rigorous quality policy at all of its facilities in France and around the world. This policy is built on harmonised care protocols and procedures, satisfaction surveys, staff training, and internal and external assessments. In France and everywhere else the Group operates, the quality department provides facilities with support and advice on implementing the programme, monitoring and controlling the measures taken. In addition, methodological assistance with devising tools to help manage the programme consistently across the entire Group has been introduced. Facilities are also asked to produce a quality indicators every month and send it to the quality and operations departments, and this helps to track the programme's continuous improvement process, and to detect and prevent any potential risks.

In France, this quality approach is driven by a team of over 20 people led by the Head of Quality, working closely with the medical department. Elsewhere, quality departments are also being set up to oversee the facilities' programme. The teams keep directly and closely in touch with the Group's quality department to ensure the Group's quality policy is applied consistently in accordance with the local regulations. ORPEA has established a series of commitments underpinned by the core values of professionalism, positive treatment, good faith and humility, which it adapts to every country where it operates based on specific national requirements. These core values guide its actions on a daily basis and form the basis of its corporate culture. These are the same values on which ORPEA's reputation is built, and they are equally important as its technical skills and expertise.

In parallel to the implementation of core business risk monitoring, ORPEA has also mapped two specific risks – information systems risks and compliance risks

With ORPEA's increasing awareness of cyberthreat risk, it has introduced detailed mapping of its IT risks given the Group's expansion and the environment in which it operates. This risk mapping was conducted in a manner intended to identify the endogenous and exogenous risk factors and the entities responsible for controlling these risks, both in France and around the world, or arising from its suppliers or subcontractors.

To prioritise the risk factors and associated action plans, the Group has adopted an approach that plots these risks along two axes – risk criticality and the extent of control:

- criticality reflects the likelihood of occurrence of the risk (combination of probability and the human factor) and the impact of the risk (its severity). Severity is not measured solely from a financial perspective, but also reflects information systems security indicators, such as availability, integrity, confidentiality and traceability;
- the extent of control reflects the Group's ability to curb the risk, either by restricting its impact or by reducing the probability of its occurrence. The extent of control is based on the average of the key criteria, which are evaluated one by one to identify the strengths and weaknesses of the framework. This evaluation gives rise to both action plans implemented to strengthen the internal control framework and also to audit engagements intended to control the risk factor effectively.

More recently, the entry into force of the Sapin II law has provided ORPEA with an opportunity to design a formal and structured compliance risk management programme. The Group had previously worked on compliance risks without formulating a specific programme. The appointment of a Chief Compliance Officer represents a strong signal by management of its commitment to and of its desire to make progress in this area.

As a result, a compliance risk mapping exercise was conducted – with a broader scope than just corruption risk – in France (domestic market and headquarters), and it is now being replicated Group-wide, with the largest business units being mapped first.

To map compliance risks, ORPEA applied the methodology it has defined, which is similar to that presented for mapping information systems risks. The requisite adjustments were made to the risk impact assessment to add the image and reputation, legal, operational and other elements, as well as financial aspects.

This risk mapping exercise helped to pinpoint specific areas for improvement in respect of each risk, as well as Group-wide points that should help enhance the control over all risk factors. Initially, attention was paid to these Group-wide points, and the Group, which already had charters promoting positive treatment, care for residents and patients, respect for values, has also introduced a code of conduct. Underpinned by ORPEA's key principles and core values, it establishes common commitments applying to all its stakeholders, including management, employees, partners, subcontractors and suppliers. The code will be made available on the Group's corporate website to facilitate its distribution in a fully transparent manner. Other workstreams, such as increasing the penalties for breaches of the code of conduct and introducing a reporting and whistleblowing process (presented below), have also been launched.

2.8.3.2 REGULAR PROCEDURES ASSESSING THE STATUS OF FACILITIES, SUBSIDIARIES, SUBCONTRACTORS/SUPPLIERS WITH WHICH ORPEA HAS AN ONGOING BUSINESS RELATIONSHIP

Regular procedure assessing the status of facilities, subsidiaries, subcontractors/ suppliers with which ORPEA has an ongoing business relationship

Under the organisation structure, each facility manager reports to the regional manager, who in turn reports to the Chief Operating Officer. ORPEA has introduced a self-assessment process for facilities. As part of these arrangements, each facility conducts a self-assessment every three months using pre-defined criteria applied across the Group.

The results of these self-assessments are used as input for the semi-annual audits conducted by the regional departments. The goal is to make sure that residents and patients receive proper care, and that this care is commensurate with the Group's quality policy. Based on the results, the operations and the quality department are able to establish whether there is a risk or a failure and to decide whether to implement a remedial action plan.

ORPEA also pays particular attention to tracking and verifying the progress made under the quality programme wherever it is active. Internal assessments and external appraisals are thus carried out at all its facilities on a regular basis. The Group has pursued this proactive approach since 1998.

Internal assessments are carried out by the regional departments, quality department, medical department and/or executive management

These internal assessments provide an opportunity to confirm that the Group's procedures have been taken on board and are applied and that teams have a perfect grasp of the protocols. They also ensure that remedial actions taken are followed up properly over the long term.

External appraisals are also often called certifications

In France

External appraisals represent a source of transparency for residents and their families, guaranteeing that facilities honour their commitments concerning the consistency and quality of the services provided over time. The quality approach is a continuous, never-ending process, of which certification is just one part.

In France, a compulsory external inspection is carried out at all health facilities, including ORPEA's hospitals, by the *Haute Autorité de Santé* (HAS), an independent authority. It covers all of a healthcare facility's operations and practices and aims to ensure that safety and quality of care requirements are actually taken into account by the facility. Certification requires effective participation by all a facility's professionals in the self-assessment process, which is based on the certification handbook published by the HAS and inspections by its experts. A multidisciplinary steering committee is thus tasked at each of the Group's hospitals with monitoring this quality programme on a permanent basis.

An external appraisal of ORPEA's nursing homes is conducted by consultants from outside the Group. The results of this appraisal are submitted to the supervisory authorities and determine whether the facility has its operating licence renewed.

ORPEA has launched the process for its homecare services to gain Qualicert certification based on the SGS Services for individuals RE/SAP guidelines. This certification helps to build trust among customers and partners, since it provides evidence of:

- standardised practice across the network;
- the professionalism of its employees;
- services tailored to customer needs;
- a willingness to deliver improvements in response to customer needs.

Hospitals outside France

In Germany, hospitals have to undergo a mandatory certification process that meets standards approved by the BAR. This certification has to be renewed every three years, and is required to maintain a licence to operate. Annual inspections in the intervening years are also required.

In Italy, an external appraisal is compulsory for all facilities as part of an accreditation procedure. The process is carried out either by an approved inspection agency, the regional health department or an independent public authority, depending on the region.

In Austria, controls are carried out by the health authorities to make sure the regulatory requirements are met.

No specific requirements apply in Switzerland. However, hospitals have decided to apply for ISO 9001:2008 certification.

Nursing homes outside France

In Germany, all facilities undergo annual inspections by the MDK, the medical services of health insurance funds, which applies a methodology and framework defined in Book XI of the German Social Code and validated by the health ministry.

To promote transparency in care quality for the elderly, a synopsis of MDK inspections is published for each nursing home in Germany and has to be displayed conspicuously in the facility.

In Austria, nursing homes are subject to an annual audit by the authorities covering respect for residents' rights, the quality of care provided, and health and safety standards

In addition, the Austrian ministry for labour, social affairs and consumer protection has created a national quality certificate (NQZ). This is awarded to facilities that have implemented a genuine quality programme and meet the highest quality standards.

SeneCura, which manages the nursing homes in Austria, is actively involved in this certification process that takes around two years. Its aim is to secure certification for all its facilities over the next few years.

In Switzerland, the care documentation is also audited by insurers (cantons and health funds). An external audit conducted by the supervisory authorities also applies health and safety criteria.

In Italy, an external appraisal is compulsory for all facilities as part of an accreditation procedure. These appraisals encompass all aspects of a healthcare facility's operations and practices, and they aim to ensure that safety and quality of care requirements are actually met by the facility. For nursing homes, the appraisal is carried out by an ASL (regional health agency) commission.

In parallel, satisfaction surveys are conducted on a regular basis

Satisfaction surveys provide benchmarks, illustrating the Group's determination to meet the needs of residents and patients as effectively as possible and to give their views even greater attention.

The Group's nursing homes conduct an anonymous survey every year measuring the satisfaction level of residents and their families. This survey by ORPEA's quality department acts as a satisfaction indicator and gives residents and their families the chance to rate all aspects of a facility's services, including the accommodation, care, meals, approachability and attentiveness of staff, and events & entertainment. The results of these satisfaction surveys are presented to the Executive Committee and then to the staff at each facility.

At the Group's hospitals, patients are given a questionnaire as a matter of course upon admission or shortly before they are discharged. Feedback from these questionnaires is analysed every month to keep track of the areas of strength requiring further reinforcement and areas for improvement, and the results are then displayed.

For DOMIDOM's homecare services, a selection of each local office's customers in France is polled by phone as part of an annual satisfaction survey.

In Germany, pension funds conduct their own satisfaction survey of their members, which often takes place several weeks after the patient has been discharged.

Regular procedure assessing the status of ORPEA's business

ORPEA is represented in every country by business units that oversee the introduction of its model and ensure that the highest standards of quality and most effective management are achieved. Each business unit has its own management team and an administrative headquarters for the support functions.

The local management team possesses in-depth knowledge of the national regulations, key contacts and robust experience of the key economic, demographic and cultural challenges in the country. Each business unit has a free rein to manage its business plans as it sees fit and to arrange financing for its development, with the approval and under the oversight of the Group's executive management.

To ensure the business units embrace a common set of practices and procedures, ORPEA has formed a team known as the International Managers (IMs). Working with internal control, they lay down for each territory the rules applicable to all the BUs (referred to as the Group's Internal Control Standards). The purpose of this is to ensure that the Group manages the key risk factors identified as effectively as possible.

The Group Internal Control Standards, which are supplemented by appropriate control arrangements, provide the business units with guidance on integration aspects and on the implementation of the Group's operating processes and procedures. The role of the International Managers is to set in motion, advise on, monitor and oversee the application of the Group's policies in each country and each area of expertise while adapting to the local culture and legislation. To support them, ORPEA is hiring internal controllers at the business units charged with verifying that the internal control standards laid down are properly applied. In parallel, it has introduced a programme of workshop-based training in the applicable internal control principles, which is currently being rolled out to cover all the relevant teams.

Regular procedure assessing the status of subcontractors/suppliers with which ORPEA has an ongoing business relationship

ORPEA has introduced a responsible purchasing policy

ORPEA has a Group purchasing department backed up by country-specific purchasing units. Under its purchasing policy, ORPEA is particularly concerned with the social and environmental aspects of its supplier relationships.

In its national and international listing, the Group gives preference to companies with an environment charter or which are developing environmentally friendly procedures or solutions. The Group is also very careful to make sure it trades fairly by incorporating ethical and social rules in its contractual relationships with suppliers and subcontractors.

All these criteria are included in the Group's invitations to tender and are thus taken into account when the Group selects its partners.

ORPEA does not sell on the products and services that it purchases from its suppliers. It buys in the products and services either for direct use by its patients and residents (catering products, beds, incontinence-related supplies, etc.), for use by staff at its facilities (*e.g.* maintenance products) or for further processing.

ORPEA's purchasing department is highly meticulous in its selection of suppliers. In many cases, it makes a decision to choose just a single supplier in France and around the world in each BU by product category. For example, all its maintenance products come from a single supplier, while another supplies all its incontinence-related products, and it has a dedicated glove supplier, too.

Under its tried and tested selection process, the purchasing department focuses primarily on the quality of the product and the service provided to maintain the health and safety of ORPEA's patients, residents and employees. Pricing is discussed only at the end of the process.

Suppliers are selected with the support of the operations, medical and quality departments according to the nature of the product or medical device (*e.g.* purchases of beds, for example) and its impact on residents and patients.

Best practices for using the products or medical devices purchased from suppliers are also introduced with guidance from the supplier and the quality department. Facility employees are made aware of these best practices to make sure the products are used appropriately and effectively.

As a result of these arrangements, the supplier chosen by ORPEA's purchasing department becomes a genuine partner for the Group, helping to set up the partnership and monitor its performance on a daily basis together with teams and the quality department (from an ethical perspective).

ORPEA's purchasing department also conducts a regular assessment of its suppliers' performance throughout the partnership. On average, this takes place once a year, but more often should an incident occur. Should issues be encountered with a product, a report is drafted by the relevant facility and sent to the headquarters. The supplier is contacted so that it can suggest the remedial action that needs to be taken with the Group's purchasing department.

ORPEA's legal department has also set up a clear contracting process with third parties under which their relationships are laid down formally

Contracts run for periods generally varying between one and three years (for purchases). They contain stringent clauses, including performance obligations. Under another clause, ORPEA's key suppliers may be audited on a regular basis. Audits represent a means of detecting issues and give ORPEA clear insights into how its suppliers work. They also provide assurances that its suppliers are not engaging in any shady or fraudulent practices that could potentially harm its reputation.

ORPEA's works department also screens the contractors it calls upon very carefully

The works department evaluates and selects contractors as follows:

- either it decides to work with a general contractor, which then manages all the works and lots (option 1);

- or it decides to call upon the services of various contractors to manage the lots (15 on average), which may include, but are not limited to heating, plumbing, climate control, electricity, etc. (option 2).

Option 1: the works department decides to work with a single general contractor

The works department issues a traditional invitation to tender and sends the contractors the tender specifications, which must include a maintenance section. ORPEA then shortlists three to four contractors.

The final choice is made by the works department as project owner once VIVREA, the Group entity specialised in construction consulting and engineering services, has analysed the bids, tweaked the proposals submitted by the bidding contractors and made suggestions.

The general contractor selected by the works department must have agreed to the construction/extension and maintenance terms and conditions laid down in the tender specifications. It is assessed in advance on service quality, solvency criteria, compliance with labour regulations. Checks are also made to ensure it is not subject to any tax reassessments or liquidation proceedings. The payment terms proposed are also considered.

The lowest bidder is not necessarily chosen as general contractor.

Under these arrangements, the works department may require the general contractor to work with subcontractors it is used to calling upon, or that the general contractor sends it outsourcing proposals. Irrespective of the option chosen, the works department conducts an objective assessment of all the subcontractors presented (analysis of their financial condition and their balance sheets, labour law compliance, URSSAF data, etc.) and ensures they compete with each other.

Overall, the tender process takes between one month and six weeks from the publication of the tender specifications.

Option 2: the works department decides to call upon the services of various contractors (separate lots)

The tender process runs along similar lines to option 1 above, but it takes longer – perhaps two months to ten weeks from the publication of the tender specifications. What's more, the contractors may each bid for different lots.

The works department may call upon the services of contractors with which it has previously worked and which are renowned for their professionalism.

These contractors are nonetheless subject to the same objective assessment and have to compete with all the other contractors based on the criteria stated in option 1 above.

Generally speaking, the works department applies very exacting environmental standards and thus requires the contractors it selects to run tidy construction sites and to use selective waste sorting.

The works department also sets considerable store by the quality of the staff sent by contractors to work at ORPEA's facilities (to ensure that they maintain the safety and dignity of patients and residents and interact appropriately with ORPEA's teams).

2.8.3.3 IMPLEMENTATION OF RISK PREVENTION AND MITIGATION ACTIONS GUARDING AGAINST SERIOUS BREACHES OF HUMAN RIGHTS (HEALTH AND SAFETY) OR ENVIRONMENTAL DAMAGE

ORPEA opted to focus on implementing measures to control its risk exposure immediately after designing its risk mapping process. As a result, its approach is not rigid, but organised along the lines of a continuous improvement process that can accommodate the risks identified, enhancing the Group's ability to control them while seizing any opportunities arising from them.

As part of its programme of controlling risk, ORPEA pursues an active policy of risk prevention and mitigation. The risk criteria laid down aim both to reduce the occurrence of risks, through preventative controls, such as the segregation of duties, the introduction of delegations of powers and approval process, system blocks, etc. and to curb the impact by transferring risk (insurance) and setting up crisis units.

Generally speaking, all the risk categories identified to date incorporate human, health, safety and environmental factors. These factors are not currently formally incorporated in a dedicated mapping process because they are included in all the analyses already set in motion. Nonetheless, the Group takes these issues very seriously because people lie at the very heart of its business. It has already implemented the following risk mitigation measures to curb the effects on the environment and to safeguard health and safety in its facilities.

Preventative measures implemented to guard against environmental damage

ORPEA and all its teams have embraced an eco-responsible approach to reduce energy consumption and waste at its facilities

The environmental constraints that ORPEA has to address derive mainly from the regulations applicable at all its facilities, which cover aspects such as the management of hazardous waste, water quality, the health and safety of residents and patients, to cite but a few. ORPEA backs up its awareness raising by pursuing a quality-led construction and maintenance process for its facilities. That helps to curb their impact on the external environment and to provide healthy and pleasant living conditions for its residents and patients and working conditions for its employees.

Over the past few years ORPEA has adopted a highly extensive sustainable development approach, bringing partners and suppliers together to help cut energy consumption (water, gas, electricity) and promote eco-friendly products causing little or no pollution. Three years ago, ORPEA also performed a carbon footprint analysis of the greenhouse gas emissions generated by its facilities in France, with the help of a specialist carbon consulting firm, and the same exercise is due to be repeated in 2018.

The Group has also embraced a responsible policy for the construction of its properties

Starting at the design stage in France, ORPEA makes sustainable choices for new properties that help to protect the environment:

It pays particularly close attention to the following aspects:

- respect for the orientation of land;
- location of the building to fit in with the land's topography;
- principal façades facing east and west to benefit from the light;
- a design that limits thermal bridges (for example curbing the number of balconies, using special balcony treatments where they exist, and using exterior thermal insulation);
- environmental impact analysis of future facilities (neighbours, etc.);
- acoustician's support concerning road classifications and treatment of façades;
- independent storage for everyday waste and special storage arrangements for food waste;
- compliance with local environmental rules (legislation on water, ECS solar panels, where yields are attractive, etc.);
- adoption of energy-efficient technologies;
- orientation of all work spaces to capture natural light.

All these measures are followed up on by a dedicated steering committee that brings together the purchasing, works and maintenance, quality and operations departments.

Action plans implemented to curb and mitigate adverse effects on the health and safety of employees, residents and patients

Compliance with best practices

Generally speaking, ORPEA adopts best practices while abiding by the law and the regulations in force. The Group takes steps to ensure that the rules on courteousness and positive treatment are applied at all times, particularly vis-à-vis its residents and patients.

That is how ORPEA ensures that the people it cares for and their intimacy are respected. Employees in its facilities and hospitals have to ensure that they respect the choices made by individuals and their cultural differences. They also have to observe their duty to act with restraint and refrain from any deviant or reckless behaviours.

Teams are also provided with appropriate equipment suitable for looking after residents and patients.

Compliance with working conditions

ORPEA has to provide working conditions appropriate for its activities and the direct relationship that its employees build with residents, patients and their families.

As part of its policy of managing its occupational risks, the Group takes every possible step to safeguard the health and safety of all its employees.

Over the past two years, ORPEA has embarked on a strategy of tightening up its approach to controlling occupational risks. The incidence of occupational hazards is among the highest in its sector of activity, including musculo-skeletal disorders among carers.

Firstly, a Group risk prevention officer was appointed in the medical department to make its policy in this area more robust. The new officer works closely with executive management and the human resources department, as well with other headquarters support functions, such as IT and purchasing.

The Group occupational risk management policy is underpinned by three inextricably linked major priorities.

Employee training

A large range of occupational training course are offered to ORPEA's employees. These sessions available throughout their career help employees to maintain a very high level of knowledge, gain new skills and apply best practices in their daily work. What's more, the sessions help to ensure that the health and safety of all employees is safeguarded in the workplace.

A sustainable policy of training for care professionals – those facing the greatest occupational risks – can achieve greater buy-in for the programme to reduce day-to-day risk factors as they go about their daily tasks. It is specifically geared to the needs of carers who may be called upon to perform physical manipulation or patient movements.

In France, for example, this course is based on the PRAP2 reference framework for training, which has been approved by the supervisory authorities and is thus recognised nationwide as a qualification.

The training for care staff is backed up by special training for management teams (executives, health professionals, etc.) under the HAPA framework. This aims to give management teams the tools they need to design, implement and track the occupational risk prevention programme tailored to each individual facility.

This policy is overseen by the Group occupational risk officer and dovetails with the Group policy of preventing occupational risks.

Group or individual protective equipment

The likelihood of occurrence of an occupational risk can be reduced through the introduction of a safety framework, protocols and the use of appropriate specially designed equipment, either for individuals or all staff.

In line with the best practice recommendations, numerous items of equipment are used to perform the various activities in a facility.

The equipment used to mitigate occupational risk varies from one facility to another, but it can be classified into the following categories:

1. personal protective equipment designed for the job. In ORPEA's specific case, this chiefly comprises special footwear guarding against injury and falls (*e.g.* care, catering and technical units), and single-use PPE items that help to control the risk of infection or protect against chemical risks;
2. collective occupational equipment tailored to a facility's needs. Their inclusion in the building plans or their use helps to protect all employees as they do their jobs. This may involve alleviating the physical strain caused by work (use of technical, mechanical or electrical assistance), or cutting the frequency of falls (anti-skid floor coatings).

This equipment is listed on a Group-wide basis in line with the best practice recommendations. In certain cases, a regular inventory is carried out, followed by analysis based on the facility's specific needs.

Single Occupational Risk Evaluation (DUERP) in France

This evaluation, which already exists in Group facilities, identifies occupational risks that are specific to a facility and formulates specific measures to address these risk factors.

The DUERP evaluation has to be carried out every year by a work group consisting of several professionals working at the facility.

Its goal is to protect the health and safety of the employees in each of its component units.

Under ORPEA's proactive approach, this evaluation, to date always produced in paper form, will shortly be converted into electronic form and linked up to each facilities' quality action plan. The goal is to make the DUERP evaluation as exhaustive as possible and to provide the Group Occupational Risk Officer with access to it (as part of the remit of supporting and controlling the Group policy of preventing occupational risks). Similar approaches exist elsewhere outside France, but the terminology used is different.

Psychological support unit in France

The organisation also wants its employees to be able to work in an environment conducive to well-being at work and to reduce stress. To better protect the well-being of its employees and safeguard their health and safety, the Group supports employees who have to deal with the substantial emotional impact of the Group's activities.

In 2009, ORPEA set up a psychological support unit consisting largely of psychologists from outside the facility to help deal with crisis situations arising from a potentially traumatic event for staff. The cell helps to curb teams' anxiety and stress, supports the care staff so that they are able to handle events in the best possible manner, and restores their able to listen again. The support unit has swung into action on a few, limited occasions in Switzerland and French-speaking Belgium.

All in all, ORPEA's development policy is closely supported by unstinting efforts to maintain high-quality health and working conditions for its employees.

Several dedicated units set up to manage psychosocial risks

The ORPEA CLINEA psychologists' association was set up in France by CLINEA's psychiatric division in 2004

The ORPEA CLINEA psychologists' association consists of psychologists specialised in psychiatry, rehabilitation and geriatrics with a view to strengthening ties between the ORPEA-CLINEA group's three areas of activity.

Its fundamental role is to facilitate cooperation between practitioners at the various care facilities, support clinical analysis by professionals and foster collaboration with professionals from outside the ORPEA-CLINEA group.

To stay closely in touch with participants' needs, the association's work is assessed two times a year by the psychologists on the following criteria:

- quality of discussions: 92% of psychologists are satisfied or very satisfied with the quality of the discussions;
- the contribution to daily practice: 90% of the psychologists believe that the association makes a very important contribution to their daily practice.

In 2016, the association's membership was as follows:

- number of psychologists belonging to the association 214;
- 77% of the psychologists graduated more than five years previously (*vs.* 61% in 2012);
- 45% of the psychologists had been with ORPEA for more than five years;
- 12% for more than 10 years (compared with 6% in 2012).

Almost all the psychologists surveyed (98%) provided individual therapy as part of their practice in their facility. Over 90% of them also offer group sessions. 69% of them conduct tests and/or evaluations.

The association's goal is to promote dialogue between professionals and multiple different approaches to meet the specific needs of patients and residents, share their care tools and spark clinical and ethical reflection by teams.

The scientific tasks and/or clinical days arranged by the association provide a space for reflection and stress relief for teams, naturally yielding a positive impact on the quality of life and workplace life for those involved.

Rapid Intervention Unit set up alongside the association in 2009

Its core remit is to support and guide a facility having to deal with a potentially traumatic and disruptive event as part of a preventative and curative approach.

ORPEA's Rapid Intervention Unit has two main roles.

It pursues a range of prevention initiatives that aim to plan ahead more effectively for difficulties that can hamper ORPEA's development momentum, and these can be classified under four headings:

- training and prevention of psychosocial risks for facility managers;
- Group-wide monitoring system;
- one-off, targeted interventions to back up a facility that has experienced a potentially disruptive event;
- functional analysis of systems in place in a facility.

Secondly, it tracks and monitors suicidal behaviour as part of a preventative approach. A form for reporting suicidal behaviour was introduced in 2016 for the following purposes:

- gain insight into suicidal actions at all the Group's facilities;
- look for correlation and/or recurrent factors (*e.g.* frequency, period, disease, percentage of patients who have not undergone evaluation of the risk, characteristics of suicides, detection of vulnerabilities, impact of the training plan on the prevention of suicide risk, etc.);
- target prevention and training programmes;
- refine the prevention programmes based on the results achieved.

The Rapid Intervention Unit covers France, Switzerland and Belgium, with an unchanged pace of two interventions per month for the past three years, despite the growth in the number of facilities.

In the other countries where ORPEA has a presence, an external psychological support unit from outside the Group may be called in, with the primary concern being to look after employees' health and to minimise the effects of a material adverse event on them.

Each mission may involve between one and three interventions:

In 2016, 443 people in France, Belgium and Switzerland benefited from the support (individual and group) of the psychological unit. Just 15 people continued to be monitored by the unit following these psychosocial risk-prevention interventions.

24 missions involving 27 interventions took place in 2016, helping to restore a sense of security or peace of mind among staff.

In 2017, 32 missions were carried out – 12 in the psychiatric facilities, nine in post-acute and rehabilitation hospitals and 11 in nursing homes.

The ORPEA CLINEA psychologists' association also developed the idea behind the CPDGR psychological centre for diagnostics, guidance and research, which has been established at the Villa des Pages site (Yvelines department).

The CPDGR is an expert facility specialised in evaluating and providing psychological care that operates with the help of psychology MA students supervised by experienced professionals. It was set up under a partnership between ORPEA-CLINEA's psychiatric care division and the EPF, a school training psychology practitioners, which jointly supervise students. It operates as a boarding house for doctors and is one-of-a-kind in France (it was built along the lines of a model that operates in Canada).

In 2016, the CPDGR continued its work and demonstrated the effectiveness of its combined psychological analysis and neuropsychological offering. It provides support and guidance for patients and residents of the Paris-based facilities of all three divisions and for outpatients referred by the network of psychiatrists and psychologists working outside the Group.

French association for the advancement of in-facility mental health care (APSPI) formed in 2015

The APSPI builds on and extends the clinical analysis led by ORPEA-CLINEA's association of psychologists. Its goal is to contribute to professionals' thinking on the mental health care provided in facilities – including psychiatry, child psychiatry, geriatrics, somatic medicine and functional rehabilitation.

The APSPI encourages dialogue between practitioners from a variety of backgrounds. While diverse approaches are taken in the work it carries out, these always subject to an ethical and humanist stance firmly rooted in the day-to-day reality of a facility and the multidisciplinary care it provides.

APSPI members are all practitioners working in care facilities and thus deeply immersed in the realities of delivering multidisciplinary care.

- The APSPI publishes the *Cliniques* review, which summarises and provides a vehicle presenting its work. It was founded in 2011 to support a positive cycle of reflection in facilities about care practices and frameworks. The editions and topics bring together articles by professionals working in various institutional settings. The publication aims to create a dialogue between practitioners from a variety of backgrounds.
- The APSPI also holds an annual conference. The topics it covers include both theoretical and clinical issues for mental health professionals working in facilities. It also provides an opportunity to compare and contrast various approaches and to hold a debate between practitioners and academics. In synergy with the conference, the *Cliniques* review covers and builds on each theme in editions that appear in the following year.
- Lastly, the APSPI provides internal and external training for public and private partners geared to themes related to mental health care in facilities and linked to lifelong training. The APSPI is an approved training provider. Its training sessions cater for all care providers working in facilities, be they doctors, psychologists, nurses or paramedics.
- In 2017, the APSPI's training plan broke down as follows:
  - 60% of the association's revenue was generated by the lifelong training provision,
  - 423 interns and 3,204 intern hours,
  - 19 training days coordinated by APSPI in 2017, with around 228 individuals receiving training from the Group.
- The APSPI supports and launches research programmes in conjunction with its partner psychology university facilities, and it runs and participates in conferences in conjunction with the association's partners.

The not-for-profit organisation also has its own website at http://apspi.net in 2015, which it paid for.

All in all, ORPEA's development policy is closely supported by unstinting efforts to maintain a high quality of health for residents, patients and employees.

2.8.3.4 INTRODUCTION OF FEEDBACK SYSTEMS

ORPEA has always been highly sensitive to concerns because people lie at the centre of everything it does.

The main concern of facility managers is to maintain an ongoing dialogue with and to meet the expectations of families. Building a relationship of trust with patients, residents and their families is essential to achieve high-quality care. Within this framework, various measures have been introduced Group-wide to make sure they are listened to attentively and in a positive manner.

The Group is also concerned about the well-being of its employees, and so it pays particular attention to reports it receives.

Complaints received from residents and patients taken on board

The Group aims to maintain an ongoing dialogue with and to meet the expectations of families, residents and patients. Within this framework, various measures have been introduced Group-wide to make sure they are listened to closely and attentively.

Special consideration is given to complaints received from patients, residents or their family members, with the aim also being to establish a constructive dialogue in every facility in every country.

All the complaints are analysed and handled using a tried and tested process. After an initial meeting with the person making the complaint, a letter is sent as a matter of course setting out the commitments made by the facility.

Reporting by facility, region and country is carried out to identify preventative measures for each facility and on a broader basis (country and Group).

Introduction of resident or patient panels or councils to feed back information

Constructive dialogue is established in all facilities and all countries by setting up dedicated groups. These resident panels or councils consist of representatives of the management team, residents, patients and their family members. They discuss a wide range of topics and feed back on concerns, such as daily life in the facility, socio-cultural activities, and cleaning & maintenance of the buildings. Likewise, the remit is to make sure that users' rights are respected and to contribute to improvements to the accommodation and care policy, with representatives of hospital users, who come from approved not-for-profit healthcare-related organisations and who sit on the users' committee.

The goal is to review complaints from patients and systems for compiling satisfaction ratings of hospital users.

Employee representative bodies responsible for safety and working conditions

The health and safety committee is another key channel used to report issues encountered by the Group's employees, such as harassment or abuse.

Introduction of a new whistleblowing system

More recently, ORPEA established a relationship with an external provider to set up in France a general whistleblowing system covering all of the business units (but not medical issues), which is intended to identify behaviours contravening the Group's code of conduct, so that they can be eliminated.

The solution proposed by the service provider, which complies with the requirements of the French data protection agency's and the GDPR, is currently being finalised and is due to be rolled out in the first half of 2018. Internal employees and outside contractors, as well as suppliers and subcontractors, should be able to report any concerns for attention by the Group officer selected by executive management to address them.

The Group undertakes to comply with the French data protection agency's instruction – no. 2017-191 of 22 June 2017 (attached in appendix 2) amending deliberation no. 2005-305 of 8 December 2005 authorising automated personal data processing for business whistleblowing purposes (AU-004) (as amended) for the automated personal data processing conducted by the Group, implemented by the Group to report and deal with potential concerns.

2.8.3.5 OPERATIONAL FRAMEWORK FOR MONITORING THE PREVENTATIVE MEASURES IMPLEMENTED AND EVALUATE THEIR EFFECTIVENESS

ORPEA's executive management recently decided to scale up and flesh out the audit, risk and internal control department to address the new risk management challenges it faces. The department now has two strategic units – a permanent control unit and a periodic control unit.

Permanent control unit

The permanent control unit is responsible for handling three additional functions – risk management, internal control and compliance.

Risk management is responsible for formulating and coordinating ORPEA's approach to managing risks, including by implementing appropriate measures to identify risk factors. This involves risk mapping, monitoring, and the organisation of Key Risk Indicator (KRI) reporting to share the information gathered *via* a dedicated risk committee and through a summary risk debriefing provided to executive management.

The role of internal control is to establish the internal control rules applicable to all the Group's entities so as to standardise key controls and safeguard its various activities. To achieve this, the so-called "internal control standards" have been introduced within ORPEA, backed up by training and the appointment of internal control officers at the business units to ensure the programme extends to the whole organisation.

Compliance is responsible for focusing on sensitive issues related to corruption, conflicts of interest, fraud and third parties, and for analysing the major areas of improvement anticipated on a daily basis.

Periodic control unit

The periodic control unit, which handles the internal audit function, operates out of ORPEA's headquarters, with mobile teams covering the entire scope of the Group.

It performs its engagements in accordance with professional standards and aims to safeguard the quality of the internal control framework. Best practices are reported so they can be incorporated in the internal control environment, with recommendations issued to address weaknesses identified and regular follow-up.

Audit Committee

The Audit Committee is an independent body that meets on a regular basis. Its remit includes ensuring the effectiveness of internal control and risk management systems. It monitors issues arising from the preparation and control of accounting and financial information.

As part of the monitoring of the effectiveness of internal control, the Audit Committee is informed of the results of the Statutory Auditors' procedures concerning internal control. To carry out its duties effectively, the Audit Committee may, should it deem necessary, ask the Statutory Auditors or Company's managers responsible for preparing the financial statements and for internal control to appear before it.

The Audit Committee also maintains close ties with the audit, risk and internal control department.

3.

Corporate social responsibility (CSR) report

This chapter is an integral part of the management report in accordance with Articles L. 225-102-1 and R. 225-104 to R. 225-105-2 of the French Commercial Code regarding the corporate, environmental and social responsibilities of firms.

ORPEA complies with the "Grenelle II" Act in terms of CSR reporting.

The information provided in this chapter is structured according to the guidelines of implementing decree no. 2012-557 of 24 April 2012 regarding the corporate and environmental responsibilities of firms.

Given its increasingly rapid expansion in Europe and internationally, the Group continuously strives to improve its leading position in the care sector and each year continues its efforts to roll out a consistent overall Group policy in all countries where it operates.

This approach is also reflected in the information provided below, through a consolidated presentation of Group data and an analysis of the Human Resources policy at Group level rather than just regional level.

3.1 EMPLOYEE INFORMATION

The Group's success depends first and foremost on the performance and efforts of all its employees. Their involvement is a key factor. The Group has therefore developed a proactive employee policy through its Human Resources Department.

The Group has built up a broad international presence in the space of just a few years and has therefore developed a human resources policy that aims to maximise efficiency and adapt to constantly changing challenges. Priority is thus given to improving and upgrading facilities in an evolving environment. The Group Human Resources department accordingly works closely with the Business Units. In 2017, some countries including Spain, Germany and Belgium chose to bolster their human resources departments by appointing a Human Resources director, further reflecting their goal of implementing a common, coordinated HR policy to promote the spread of best practices.

The ORPEA Group's human resources policy revolves around four strategic linchpins:

- develop the core skills of employees to support the Group's business development;
- promote a common culture based on exchange and dialogue so as to practise the values the Group preaches;
- improve structural efficiency in a changing and increasingly constrained environment;
- enable employees to thrive in a professional environment suited to them.

3.1.1 EMPLOYMENT: AN ACTIVE RECRUITMENT POLICY

Employees are at the heart of the quality care advocated by the Group. ORPEA thus places great importance on designing an HR policy founded on values and on hiring, training and working with employees firmly committed to them.

The Group had a total of 54,033 employees working in its care facilities and home care services at the end of 2017, almost 5,000 more than at the end of 2016. This increase is partly attributable to the opening of new facilities and partly to the acquisitions made by the Group in 2017.

As a result, there are now more employees in the Group's international operations than there are in France, which has prompted the Group to think about the more global approach to human resources it needs to adopt in future years.

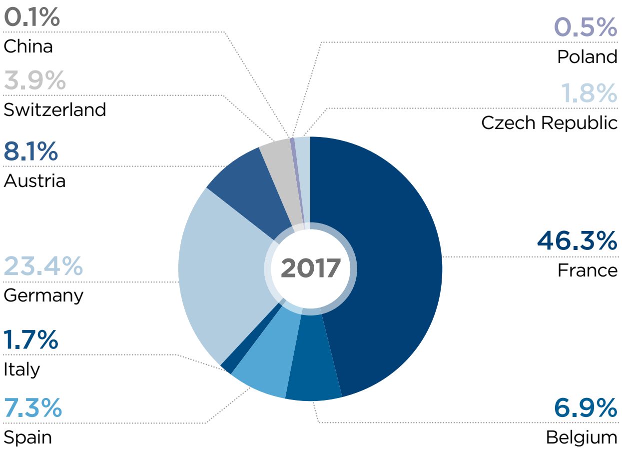
BREAKDOWN OF EMPLOYEES AND JOB STABILITY

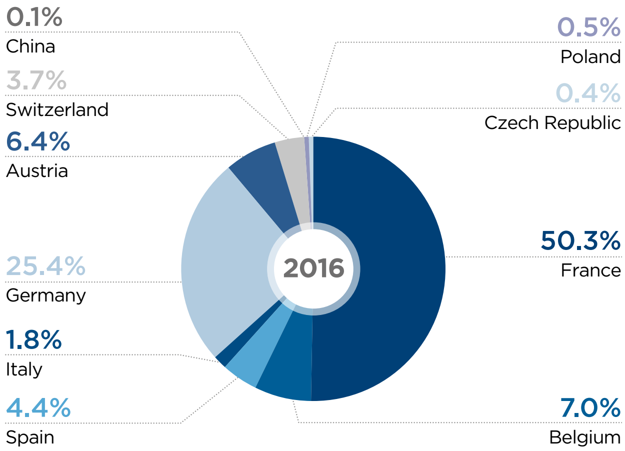
Breakdown of employees by country and type of employment contract

	Group	France	International	Belgium	Spain	Italy	Germany	Austria	Switzerland	China	Poland	Czech Republic
Employees*	54,033	24,956	29,077	3,673	3,971	940	12,652	4,390	2,111	78	284	978
% permanent contracts	83%	85%	81%	83%	75%	69%	76%	100%	88%	10%	41%	85%
% temporary contracts	17%	15%	19%	17%	25%	31%	24%	0%	12%	90%	59%	15%
% full-time	64%	80%	50%	48%	84%	80%	38%	46%	37%	100%	95%	80%
% part-time	36%	20%	50%	52%	16%	20%	62%	54%	63%	0%	5%	20%
% managers	N/A	11%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
% non-managers	N/A	89%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* *Individuals present on all types of contracts at 31 December 2017.*

Change in the breakdown of employees by country between 2016 and 2017





ORPEA has a consistent policy that aims to give all its staff job stability and security in all its countries of operation. This policy encourages full-time (generally permanent) contracts in countries where this is the norm.

The percentage of employees working full-time and on permanent contract is 64% and 83% respectively.

Fixed-term and other types of employment contract exist but are limited by law to specific cases. This type of contract is more prevalent in the healthcare and personal services sector, which requires 24/7 availability, than in other business sectors. Fixed-term contracts are often used to replace employees on leave of absence, in particular maternity leave (83% of the Group's employees are women), or to make up for unexpected absences. These fixed-term replacements are therefore essential in order to maintain the high quality of care provided to residents and patients. However, although fixed-term contracts are essential, permanent contracts are still the norm.

Furthermore, in some countries and in some professions where there are staff shortages, ORPEA also has to adapt to the very specific demands of some categories of staff that do not want to accept a permanent contract.

However, the prime objective is always to have a stable workforce with job stability. Use of temporary employees is marginal and restricted to exceptional one-off needs, mainly due to emergencies, to ensure continuity of care with nursing staff, for instance.

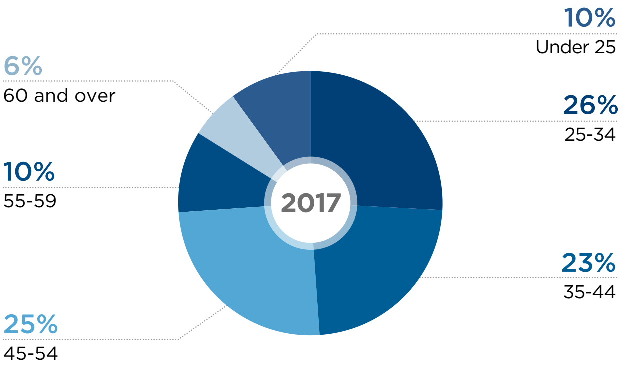
Employees of all age groups are represented in virtually every country in which the Group operates. This ensures diversity of profiles and promotes the sharing of experiences, two aspects dear to the Group.

Furthermore, the breakdown of employees by age group was almost perfectly stable between 2016 and 2017. There were some slight changes year-on-year within various countries, but the breakdown remains consistent at Group level. Employees aged under 25 represented 10% of the total workforce in 2017, similar to the previous year. Employees aged 25 to 44 generally represented about 50%. There may have been some changes in certain countries, but the statistics can only be taken into account in the light of the workforce and the percentages may therefore be less representative. Employees aged 45 to 59 represented 35% of the total in 2017 *versus* 36% in 2016, and those aged over 60 have represented 6% of the total since 2015.

Breakdown of employees by age bracket

	Group	France	International	Belgium	Spain	Italy	Germany	Austria	Switzerland	China	Poland	Czech Republic
Under 25	10%	8%	10%	10%	7%	4%	11%	7%	15%	19%	1%	15%
25 to 34	26%	28%	24%	30%	25%	20%	21%	25%	22%	33%	36%	25%
35 to 44	23%	23%	23%	29%	26%	28%	19%	26%	20%	32%	30%	26%
45 to 54	25%	25%	26%	21%	27%	33%	26%	30%	23%	15%	22%	21%
55 to 59	10%	10%	11%	7%	10%	10%	13%	10%	12%	0%	11%	8%
60 and over	6%	6%	6%	3%	5%	4%	10%	2%	8%	0%	1%	5%

Breakdown of Group workforce by age group



JOB CREATION AND RECRUITMENT POLICY

Thanks to its expansion and policy of opening new facilities, ORPEA is a committed player in the local economy, creating many permanent locally-based and by definition, therefore, non-offshorable jobs each year.

Together, job creations and renewals related to attrition allowed the Group to recruit a total of 9,775 permanent staff in 2017, up from 8,472 in 2016 and 7,098 in 2015.

Some countries have seen significant growth in their workforce. In the Czech Republic, for example, business growth during 2017 enabled the Group to recruit over 300 more permanent employees than in 2016, thereby contributing to the development of local employment.

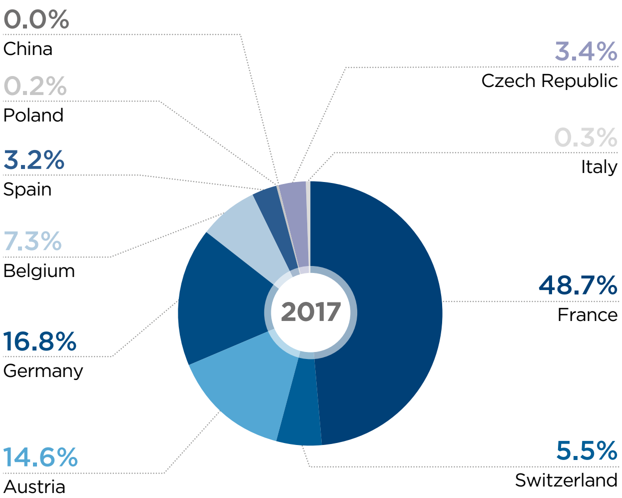
	Group	France	International	Belgium	Spain	Italy	Germany	China	Switzerland	Austria	Poland	Czech Republic
Recruitment of permanent employees*	9,775	4,765	5,010	711	309	31	1,638	1	537	1,431	15	337

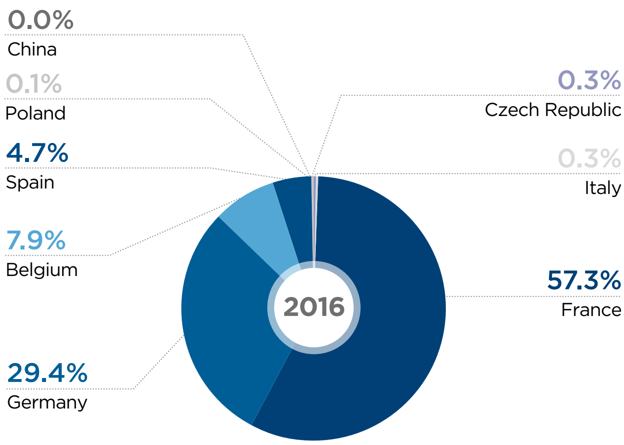
* *New employees hired on permanent contracts in the year. Changes from fixed-term to permanent contracts are not traceable in France, Belgium and Spain.*

An analysis of figures for the last few years reveals the Group's aim of expanding internationally.

Between 2014 and 2015, the proportion of employees hired outside France rose from 9% (545 new employees in 2014) to 33% (2,014 new employees in 2015). Between 2016 and 2017, following ORPEA's strong international growth, this proportion rose to 43% in 2016 and to 51% in 2017.

Change in permanent contract recruitments by country between 2016 and 2017





The vast majority of vacant positions available in the Group are for permanent contracts in the medical, care, accommodation/catering and administrative services businesses.

Staff recruitment is based on experience as well as human qualities. In a business based on personal service such as ORPEA's, it is essential that staff share a number of values in addition to their professional qualifications:

- kindness, the first pillar of good treatment, requiring listening skills, availability, respect and trust;
- hospitality, friendliness and good humour, which make facilities into real living spaces, open to the outside, conducive to the development of social relationships.

At the same time, to motivate promising profiles, ORPEA has expanded its special partnership with ESCP Europe beyond the training provided to the Group's managers.

It is essential for the Group to create a pool of young professionals willing to make a commitment and lead its staff in order to succeed in its international expansion.

This partnership enables ORPEA to present and promote its business and career prospects to final year undergraduates or students preparing professional master's degrees, at conferences, business forums and recruitment meetings. Such events are organised throughout the Group in response to local needs and realities.

The Group is very keen to encourage and attract young people to careers in health and care and therefore holds many events such as career forums and business open days.

In terms of contract terminations, dismissals are essentially of an individual nature and are usually due to professional misconduct, and notably suspicion of mistreatment, an issue on which the Group has a zero tolerance policy.

	Group	France	International	Germany	Belgium	Spain	Italy	China	Switzerland	Poland	Austria	Czech Republic
Dismissals of permanent employees*	2,179	1,370	809	435	102	91	15	0	95	7	55	9

* *Termination of permanent contracts due to dismissals in the year. Termination only applies to permanent contracts. It includes lay-offs for economic reasons as well as dismissals for other reasons, in both cases at the sole initiative of the employer.*

WAGE POLICY

ORPEA has always had a fair wage policy. In addition to pay scales, it offers many benefits in line with local needs. This policy also aims to foster a culture of high performance and nurture the skills needed for the Group's development.

In 2017, the Group's gross payroll was as follows:

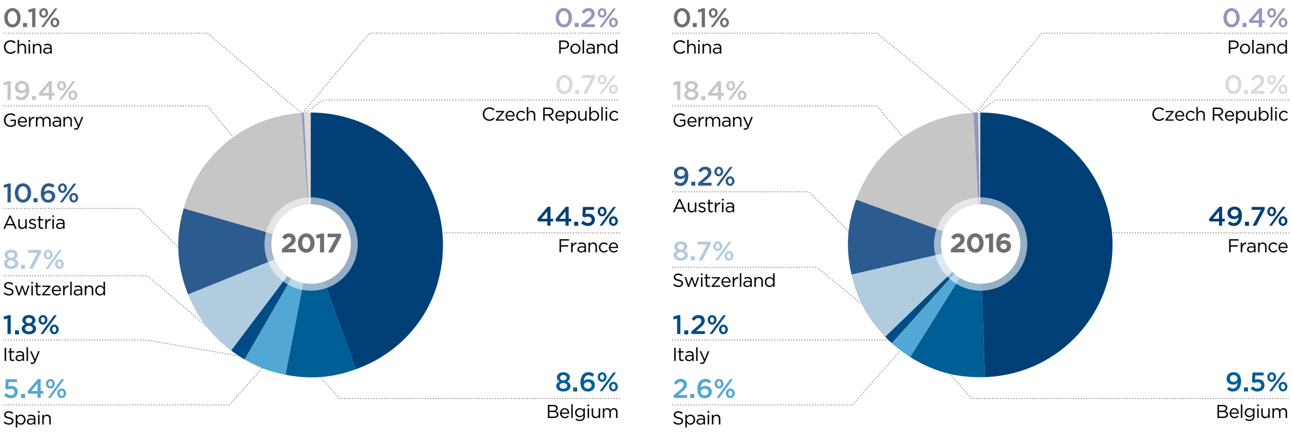
GROUP	**€1,470,857,244**
France	**€653,637,487**
International	**€817,219,757**
Belgium	€125,846,038
Spain	€80,026,295
Italy	€26,673,975
Switzerland*	€127,624,599
Austria	€156,171,373
Germany	€285,180,412
China*	€1,526,253
Poland*	€3,488,284
Czech Republic*	€10,682,528

* *Based on the following exchange rates: €1 = CHF 1.17497, CNY 7.73985, PLN 4.20946 and CZK 25.3476.*

In 2017, the gross payroll rose to €1,470,857,244 from €1,241,603,438 in 2016.

In line with growth in the workforce due to strong international expansion, a higher proportion of gross payroll is now paid in the international operations than in France.

Change in payroll by country between 2016 and 2017



CAREER MANAGEMENT: CORNERSTONE OF THE GROUP'S SOCIAL POLICY

Identifying talented people, retaining them and offering them specific training are the cornerstones of a proactive policy introduced very early on by the ORPEA Group to capitalise on and promote professional expertise and human qualities.

The Group uses the skills models it has developed to enrich its training programmes, perfect its appraisal processes, round out its integration programmes and adapt its job profiles.

Furthermore, ORPEA considers the real values and skills of its staff to be more important than formal qualifications. Many of its managers have been promoted from within the Company: care workers, nurses, health supervisors and secretaries by training have reached positions of responsibility, thanks to their motivation, commitment and potential.

Managers are the key role players in the facilities. Along with their teams, they create the conditions for trust and work that are necessary for collective success. As Group ambassadors, they can rely on the support and expertise of the Head Office.

ORPEA is committed to bringing out individual strengths and energising the careers of each employee to improve the quality of patient and resident care and boost staff motivation and qualifications.

The Group's motto "Build your career with us", as shown in the "Careers" section of the Group's website, meets the standards ORPEA has set itself. Above and beyond the primary, fundamental work tasks any group should offer its employees, ORPEA supports its valued people in their career plans by focusing on internal recruitment for vacant management positions.

The Group therefore encourages internal promotion and geographical mobility.

At any time, or by means of the regular appraisals, employees have the opportunity to express their expectations and ambitions in terms of training, development or geographical relocation.

There are also opportunities to transfer between ORPEA and CLINEA or between countries for employees wishing to gain experience in or move more permanently to a specialised geriatric, post-acute and rehabilitation, or psychiatric care facility, or simply to another environment.

Opportunities for exchange between professionals are also highly appreciated by the Group's staff, such as panels of psychiatric experts attending cookery contests run by well-known professionals. These activities not only give the Group's staff the opportunity to demonstrate their skills but also contribute to their pride in belonging to the Group. They also give the Group a grass-roots view of its job specialisations.

3.1.2 ORGANISATION OF WORKING TIME

The specific nature of the Group's business requires staff to be available around the clock every day of the year, with due consideration for local regulatory constraints.

Accordingly, apart from complying with legal and contractual requirements (the contractual working week within the Group is generally between 35 and 40 hours), shift work is the norm across the Group as it caters better to the family lives of employees and spreads individual workloads in a more balanced way while ensuring equal working hours.

Working time is organised with the following priorities in mind:

- to ensure 24/7 care of residents and patients;
- to structure duties logically in the course of a day around the daily needs of residents or patients;
- to link together all the services and specialisations of the facilities (accommodation, cleaning, catering, care);
- to allocate working hours in a balanced manner;
- to ensure a balanced workload for employees and quality care for patients and residents.

Absenteeism remains a factor to be taken into account when ensuring that daily care is not interrupted: regional figures for 2017 were as follows:

- France: 3,320,578 hours;
- Belgium: 667,612 hours;
- Italy: 84,204 hours;
- Spain: 109,301 days;
- Austria: 65,676 days;
- Switzerland: 22,321 days;
- Czech Republic: 77,967 days;
- Poland: 6,383 days;
- Germany: 263,849 days
- China: 108 days.

In all cases, employees are the main consideration in the Group's approach to working time organisation and the social partners are involved where necessary. ORPEA's priority is to promote the benefits of a shift work system and implement it in harmony with normal work and rest time under local regulations. Shift work contributes to the well being of employees and thus helps to reduce absenteeism.

For this reason, the Group is also experimenting in cooperation with willing employees to seek an internal solution to the difficulties in finding emergency replacements.

3.1.3 A REGULAR AND CONSTRUCTIVE SOCIAL DIALOGUE TO PREPARE FOR THE FUTURE

THE FRAMEWORK: EMPLOYEE REPRESENTATIVE INSTITUTIONS

The Group fully involves existing local employee representative bodies in its development.

In addition to the obligatory consultations, ORPEA maintains constant social dialogue throughout the year, both with trade unions and with all staff in the field. Meetings take place on a monthly and quarterly basis or at the request of the employer or social partners.

Social dialogue takes place within the Group mainly through the following representative bodies in France: Union delegates, Works Councils and Health & Safety Committees. Union delegates also meet during annual negotiations covering matters such as pay, working hours, incentive plans, employee savings, disability employment and gender equality.

In Belgium and Spain, social dialogue is legally structured around similar bodies. As such, in these countries, a body composed equally of staff and employer delegates discusses economic, social and financial information, while another, also composed equally of staff and employer delegates, deals with matters relating to prevention and protection at work.

In Belgium these representative bodies co-exist alongside close representation *via* the union delegates.

In Italy, employees are represented through a different structure in accordance with local laws. Meetings are set depending on the subjects selected (organisation of the day, work schedules, etc.) by the social partners in compliance with the Group's determination to consult.

In other countries where the Group operates, close dialogue is the rule.

In all cases, the rules governing the renewal of employee representative bodies are scrupulously followed, the Group being committed to strengthening the quality of social dialogue and balancing employee interests and career progression with the Company's financial constraints. The Group operates according to the principle that sound running of the Company depends in large part on effective and constructive employee relations for all.

COMPANY AGREEMENTS

Collective agreements, adapted as necessary to local social dialogue and regulations, apply in the following areas:

- work-life balance;
- leave and making time up;
- reducing difficult working conditions;
- incentives, bonuses and profit-sharing;
- healthcare and disability;
- promoting the inclusion of target groups such as people with disabilities and older workers.

The various themes of these agreements are naturally addressed across the entire European scope, but in line with each country's own legislative framework and more political priorities. Belgium, for example, is more restrictive in terms of prevention, and actions implemented in this regard are rolled out in a proactive manner. Spain places greater priority on measures to maintain employment.

In any event, the agreements reached factor in the legal aspect, but also promote equity, respect for employees with a view to promoting loyalty and transparent dialogue.

3.1.4 PREVENTING RISK AND PROTECTING THE HEALTH OF EMPLOYEES

Employee representative bodies are consulted with regard to drawing up policies to reduce workplace risks and accidents in order to help improve working conditions in practical ways.

Priority is given to reducing workplace accidents and work-related musculo-skeletal disorders on the one hand and spreading the workload evenly on the other.

For the Group, taking steps to foster good working conditions helps to prevent health problems, reduce the risk of accidents and increase the quality of care provided to residents and patients.

Either at its own initiative or in cooperation with the employee representative bodies, the Group takes action by:

- identifying risks in order to lay the groundwork for an overall risk prevention plan and an action plan;
- analysing the causes of workplace accidents and occupational diseases on a local level;
- making teams aware of the need to take in and train workers.

In keeping with its values, the Group also reaffirms its commitment to preventing harassment and violence in the workplace by keeping employees constantly aware of these issues.

As part of the Group's continuous efforts to prevent occupational hazards, the common objective shared by everyone is to monitor workplace accidents and occupational diseases in line with local laws in order to anticipate and reduce the hazards to which employees are exposed in their work.

Risk detection and analysis, and the resulting action plans, aim to bring facilities, tools (protective equipment, training) and working methods into line so as to reduce occupational hazards while meeting regulatory health and safety requirements.

The Group is also committed to maintaining and improving the working conditions of its employees by optimising the architecture and materials of its buildings.

Steps are taken to prevent the risk of workplace accidents when new structures are built and during renovation or extension projects. The Company has geared its work towards looking to build professional risk prevention into its projects at the earliest possible stage.

In addition to protecting their health, the Company also wants to provide its employees with a working environment conducive to well-being; staff rooms are more spacious, comfortable and well equipped; buildings are designed to let in as much light as possible with windows at eye level and wherever possible in front of work stations, in each building and in rest rooms, etc.

The Group has also held many training sessions on handling & lifting and preventing back pain and stress; these issues are a priority in all countries.

STATISTICS ON WORKPLACE ACCIDENTS

The Group is continuing its efforts to improve the working conditions of its employees and is constantly on the lookout for best practices to support its commitment to reduce the risks inherent in its sector.

The number of workplace accidents and occupational illnesses is a crucial HR indicator that must be kept as low as possible.

The frequency and severity of workplace accidents as defined by the INRS (French National Institute for Research and Safety for the Prevention of Workplace Accidents and Illnesses) cannot be measured uniformly in all countries where the Group operates.

The Group has therefore decided to use a single indicator for its international operations, based on the same definition of severity and frequency, in order to monitor workplace accidents on an overall Group level.

	International	Belgium	Spain	Italy	China	Poland	Germany	Switzerland	Austria	Czech Republic
Frequency	19.57	16.52	53.48	38.26	0	6.19	13.01	11.66	7.44	13.41
Severity	0.59	0.57	1.46	1.30	0	0.15	0.36	0.34	0.18	1.55

However, the very definition of a workplace accident, its reporting and the conditions for it to be recognised as such depend on national legislation.

In addition, the significant variances between countries may also be due to initial teething troubles in adopting the new Group indicator, which has its own definition and different rules. In Spain, for example, workplace accidents are treated very differently from sick leave and the number of accidents reported will therefore be much higher than in other countries. Comparisons are also difficult in Spain due to the increase in the workforce. In Austria, outsourcing of the kitchen functions (and the related staff) also had an impact on the frequency rate.

These new indicators were introduced for the first time in 2016 and comparisons between 2016 and 2017 are therefore difficult. It will require several years worth of data as well as time for the countries to get used to using the indicators before comparisons will be truly relevant.

Lastly, France does not have the technical capability to switch to the new definition used for the international operations. As in previous years, therefore, the calculation is based on hours worked, not hours paid as is the case in other countries. These factors also have the effect of artificially inflating frequency and severity rates.

Consequently, the headline frequency and severity rates reported for France in 2017 are higher but are not comparable.

	France
Frequency	69.27
Severity	1.58

This is all the more true in that, for the first time this year and with a view to taking a global approach, the calculation of the French rates includes hours worked by managerial staff whose working time is based on a set number of working days per year. It is therefore difficult to analyse the figures other than on a like-for-like basis.

As regard occupational illnesses, it is not as yet possible to envisage an overall Group indicator, as this would require a common basis for recognition for the indicator to be monitored effectively and consistently.

But local legislation on the recognition of occupational diseases and disorders varies significantly from country to country. Each country therefore has its own definition of the various disorders (whether or not listed) and its own rules for establishing cause and effect and for determining whether the disorder should be recognised as an illness or a workplace accident.

However, musculo-skeletal disorders, which are now considered to be the most prevalent form of occupational illness in the developed countries, are a main focus of attention in the prevention policies implemented by the ORPEA Group. In addition to being disabling or painful for the affected employees, these disorders are a source of difficulty for the Group as they lead to disruptions in work organisation and thus the smooth running and quality of work within its facilities.

The Group therefore takes action to combat these disorders on several different levels, which has a positive effect on reducing absenteeism and staff turnover.

Bearing in mind that these disorders are largely caused by repetitive strain, employees are taught to limit repetitive movements as far as they can and to handle and lift heavy weights properly, not only through training but also by providing proper equipment (baths, beds, ceiling rails, etc.).

Secondly, from an organisational point of view, the Group informs, trains and makes employees aware of "risky" positions and their potential effects, and makes sure that shifts are organised in such a way as to ensure a proper balance between work and break time.

This approach is taken in all countries where the Group operates, in cooperation with the occupational physician where there is one, and guidelines are made available to the existing employee representative bodies, in particular the Health & Safety Committee, as well as the prevention advisers, doctors and training departments.

In this area, as in many others, the Group strives to take a responsible approach and remain attentive to everyone's needs. It is extremely important to engage in dialogue with employees in this field in order to identify areas for improvement.

ESTABLISHMENT OF A PSYCHOLOGICAL UNIT

With a view to supporting employees subjected to emotional distress attributable to the sector, in 2009 the Group established a psychological unit known as the "Institutional Emergency Intervention Unit" consisting of qualified psychologists with specific training in institutional trauma. The unit began operating in France and, more recently, expanded into Belgium and Switzerland.

The conditions triggering the system and the intervention of psychologists are set out in a Group procedure, which helps define and adapt interventions on a case-by-case basis. The unit is completely independent of the client facility, and intervenes as a third party.

The main objectives of this unit (achieved by means of working groups and/or discussion groups) are:

- to support and help a facility in an emergency situation linked to a violent and potentially traumatic event that disrupts institutional life and threatens the emotional and/or physical integrity of members of the facility;
- to deal with the anxieties and resistance of teams;
- to help care teams cope with events by restoring their collective care capacity;
- to identify people at risk, who are emotionally fragile and excessively affected by the event.

In 2017, 32 interventions took place, restoring a feeling of security or serenity among staff, and 252 people in France, Belgium and Switzerland sought to benefit from the support (individual and group) of the psychological unit.

Fewer than 15 people continued to be monitored by the unit following these psychosocial risk-prevention interventions.

Since 2014, the psychological unit has expanded its scope of intervention by offering institutional mediation to staff facing a potentially disrupting event. The aim of these interventions is to:

- take time to talk and share about the situation employees are going through;
- take time to reflect on employees' work, on the meaning of "working together" and on possible new opportunities for greater well-being at work.

This policy of developing employment combined with a strategy of preserving good working and health conditions for employees is backed up by a proactive approach to professional training.

3.1.5 EMPLOYEE TRAINING: COMMITMENT TO QUALITY AND PROFESSIONALISM

Employee training is an essential value of the Group and aims to provide a living environment that promotes the daily well-being of residents and patients.

Developing, acquiring and consolidating professional skills guarantee the Company's success. The training provided for employees continues to expand so as to meet the various challenges in the sector.

The Group has an ambitious staff development policy that aims to enable all employees to always be at the forefront of improving care and develop their skills while spreading core values and best practices. The policy seeks to raise awareness and involve employees in key matters and collective, shared goals.

Developing skills through training lies at the heart of the Group's policy. Jobs maintained or created are accompanied by prospects of diversification, improvement and promotion with the aim of nurturing talent within the Group.

The widest possible range of training is therefore offered (for example, training programmes for targeted groups of employees, training in prevention, psychosocial risk, employee inclusion, disability, etc.).

Breakdown of employee training hours in 2017:

	Group	France	International	Belgium	Italy	Spain	Germany*	Austria	Switzerland	China	Poland	Czech Republic
Number of hours of training	539,891	277,649	262,242	33,096	22,513	31,396	96,990	51,153	12,346	1,322	1,376	12,050

* *The figures for Germany only include Silvercare.*

In 2017, the Group's training momentum was extremely dynamic. The integration of and growth in new countries obviously significantly increased the number of hours training provided (539,891 hours in 2017 *versus* 413,392 in 2016).

But more importantly, although for technical reasons Celenus was unable to provide full consolidated data for 2017, each facility invests the time required to provide their staff with support through specific training courses.

For example, in 2017 Celenus introduced a specific training module for nurses called "Training to be a Co-Therapist". The course consists of four two-day training sessions to be completed within a period of two years, to help nurses cope with the difficult situations they may encounter with certain patients.

Similarly, the above figures do not include all hours for Austria as only like-for-like data has been reported for consolidation reasons. However, the facilities that joined the Group during 2017 endorsed the Group's employee training policy and provided many training courses during the year.

The popularity of these training courses illustrates the ORPEA Group's success in meeting the needs and aspirations of its employees both in terms of professional training and personal fulfilment at work. This bears out the policy described below and the Group is therefore particularly keen to deploy it internationally.

GENERAL TRAINING POLICY

For ORPEA, training must not only be of high quality; it must also and especially be of operational use.

Developing, acquiring and consolidating professional skills are essential to success in the healthcare sector.

Training programmes have been developed to meet this requirement. Existing partnerships have been consolidated and others have been developed with institutions that sometimes go beyond the context of training.

Apart from regular training programmes, the Group attaches great importance to short training sessions. These 30-45 minute sessions form one of the pillars of the Group's Quality Process and seek to maintain and develop the skills of employees in a regular and convenient manner by slotting into their daily routine in a simple and pragmatic way. Some of these short training sessions have been professionally produced in DVD format usable in all countries. In this way, training material is becoming cross-border and is helping to create a common culture of care.

SPECIFIC TRAINING TO DEVELOP KNOWLEDGE

Training must naturally fit into the daily life of the Company so that it is not seen as a constraint, but as a means of assistance, as support or even as an opportunity.

In 2017, as in 2016, the pooling of expertise within the Group continued to grow and was again reflected in communication of know-how between each speciality (nursing homes, post-acute and rehabilitation care, and psychiatric care). The training requirements of care workers having to deal with ageing and increasingly frequent psychiatric illnesses in patients have increased. Training meets these requirements by drawing on in-house resources so that everyone can benefit from the diversity of skills within the ORPEA Group.

In 2015, ORPEA Germany launched an ambitious training initiative aimed at employees with managerial responsibilities. The Business Unit put specific programmes in place for employees based on their duties in the Group (management, care, catering/ accommodation, cleaning and administration). Apart from developing skills, these programmes play an important part in the current streamlining and integration process in Germany (in the past, clusters sometimes followed their own practices). They enable inter-regional exchanges and are seen as being very enriching and important for establishing a common culture and a sense of belonging to the Group.

PARTNERSHIPS WITH SCHOOLS TO PROMOTE JOBS IN THE SERVICES FOR THE ELDERLY INDUSTRY

Domea, the carer training institute set up by the Group in 2005 (IFAS approved by prefectural order), reflects the Group's historical commitment to providing its employees with the means to obtain qualifications and with lifelong learning opportunities. In addition to individual support, Domea can accommodate young apprentices in classes of 15 people per year from February to June. Domea endeavours to train employees, students and interns using practical, interactive teaching methods, as well as through individual support in direct liaison with employers, tutors and apprenticeship leaders.

This school proves the ORPEA Group's dedication to training quality staff, and providing training that combines technical skills and respect for the dignity of the elderly and patients.

The Group is also very aware of the importance of making its business sector more attractive. It continues to forge partnerships with educational organisations to provide training in care and nursing, adapted as necessary to local needs and realities, and with business schools.

The training provided by the Group, whether specific training to improve expertise, training leading to formal qualifications or training designed to improve working conditions, must not only be high quality, it must also and above all be of practical use in all the Group's business operations.

The Group has therefore developed university diplomas in partnership with French universities to enrich the skills of its employees. The university diploma in Care Facility Management awarded by the University of Nice is designed to improve the managerial skills of its facility directors and is a good example of the Group's ambition of implementing an overall, international approach to its training policy.

For more than a year, the Group has endeavoured to give all countries the opportunity to benefit from the existing partnership by giving them access to a recognised syllabus but tailored to their own specific local requirements.

ESCP Europe continues to host the "*Cadrélan Stratégique*" programme, which enables Group employees to hone their managerial skills in a privileged environment.

The programme is aimed at employees with management and/or team leadership roles who want to become Directors or perform crossover roles within the Group, both in France and internationally. An additional theme on intercultural management was included with respect to the Group's cross-border development.

In Austria, the SeneCura Academy was officially opened in 2016 offering the Group's employees recognised training courses. The aim is for each employee to benefit from an individual lifelong learning programme and training leading to recognised qualifications.

Likewise in Switzerland, Senevita opened its Academy in 2017 and the first courses are due to be rolled out in 2018.

Beyond seeking to motivate employees and develop their skills, these initiatives aim to streamline and standardise teaching while ensuring a high level of quality. Thus not only do they form part of the Business Unit's Quality Process but they also reflect its continuous search for distinction – in respect of current and prospective patients as much as the labour market.

TRAINING AS A WAY TO IMPROVE WORKING CONDITIONS

ORPEA strives to provide training courses, whether in care practice or in well-being in the workplace, that will lead to continuous progress in working conditions for everyone and at all levels.

Lifting, ergonomics, hygiene and dealing with pain are all subjects covered by the training policy. They enable all employees to learn best practices in their profession and environment in the best possible conditions.

Facility directors and team leaders also receive training to optimise their management role. Communication, crisis management and team leadership training as well as training on the prevention of psychosocial risks is given every year.

One of the objectives is to give managers the tools they need for the proper management of their staff (for example appraisal interviews, stress management, delegation of skills, leading meetings, risk prevention, and conflict management).

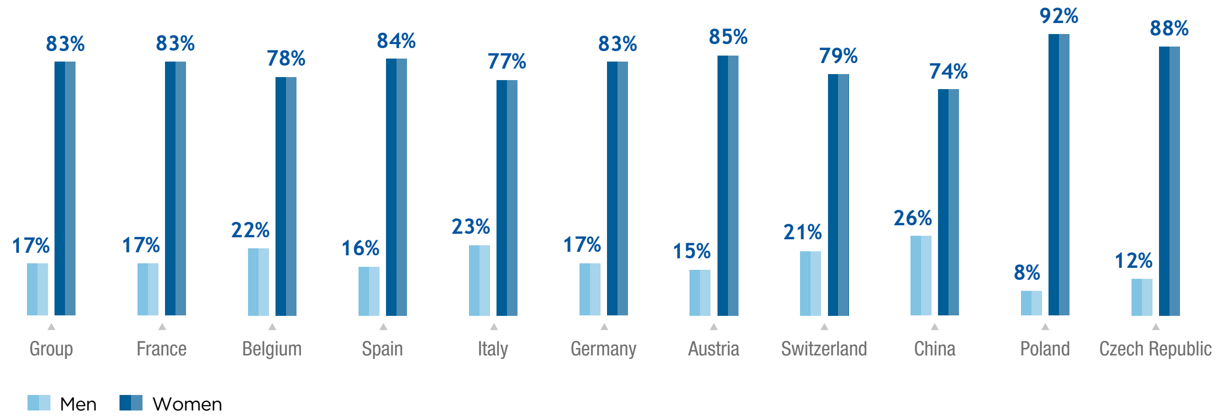
The countries are also encouraged to develop specific training according to local needs. For example, Belgium has introduced a "living and working together" course at the request of its staff and in cooperation with the staff representative bodies. The purpose of this training is to strengthen team spirit and mutual support within its facilities, and to develop understanding and respect between the different job and employee categories. These topics are very important to the ORPEA Group and the training provided is highly popular among all staff.

The purpose of this proactive approach and quest to diversify the training on offer is to use all these initiatives throughout the Group by successfully adapting them to local needs.

3.1.6 EQUAL OPPORTUNITIES POLICY

As the Group develops, it has become clear that the business sector itself has a determining influence on the gender breakdown, regardless of country. In 2017, as in 2016, the gender breakdown remained similar and at Group level stood at 17% men and 83% women.

	Group	France	International	Belgium	Spain	Italy	Germany	Austria	Switzerland	China	Poland	Czech Republic
% Men	17%	17%	17%	22%	16%	23%	17%	15%	21%	26%	8%	12%
% Women	83%	83%	83%	78%	84%	77%	83%	85%	79%	74%	92%	88%



Ensuring gender equality is a major concern within the Company, in a sector where women represent the majority of the workforce.

The goal of achieving gender equality is monitored as needed by the social partners.

Likewise, ORPEA remains committed to hiring people with disabilities in pursuit of the following objectives:

- the implementation of qualitative measures to facilitate the integration of disabled workers;
- access to all professional training solutions;
- priority monitoring of disabled employees to keep them in employment and adapt their working environment accordingly.

Employees with disabilities are always identified as such in accordance with how disability is defined in local regulations (when these exist). For example in France, the ORPEA Group had 609 employees with disabilities on a like-for-like basis, compared with 585 in 2016.

Other initiatives have also been taken as part of the equal opportunities policy. In Spain, partnerships have been forged with various associations (La Caixa Foundation, Juan Castilla Foundation, Randstad Foundation, APROCOR Foundation, Cooperation agreement with Fremap) to encourage the hiring and retention of people in precarious situations.

3.1.7 PROMOTING AND ADHERING TO THE FUNDAMENTAL CONVENTIONS OF THE ILO

RESPECT FOR FREEDOM OF ASSOCIATION AND THE RIGHT TO COLLECTIVE BARGAINING

For years, the ORPEA Group has focused on social dialogue to balance employee interests and social progress with the Company's economic constraints.

Effective and constructive social relations for all are part of the proper functioning of the Company and freedom of association, freedom of expression, freedom of assembly and the right to information are essential components of social stability and economic development.

Against this backdrop, mandates are fulfilled freely and employees can express themselves freely, with a mutual respect for legal and regulatory provisions and employees' fundamental rights.

The Company continues to ensure for all employees harmonious social dialogue involving negotiation of various aspects of labour relations to promote and defend employee interests.

ELIMINATION OF DISCRIMINATION IN EMPLOYMENT AND OCCUPATION

Through its recruitment, training and promotion policy, the ORPEA Group has always shown non-discriminatory practices, considering that equality at work involves everybody having the same chances to develop the knowledge, abilities and skills necessary for the Company's business activity. Discrimination prevents victims from achieving their full potential and deprives the Group of the contribution they could make.

Its diverse range of cultures, languages, family situations, education levels, racial or social origins, religions, opinions, etc. make ORPEA a group where everyone can find their place and thrive, where everyone is respected and where social cohesion is synonymous with economic efficiency,

ELIMINATION OF FORCED AND COMPULSORY LABOUR AND THE EFFECTIVE ABOLITION OF CHILD LABOUR

Due to the kind of business it is involved in and the direct link its staff have with residents, families and patients, ORPEA has naturally always adhered to the main conventions of the International Labour Organisation.

3.2 ENVIRONMENTAL INFORMATION

3.2.1 THE ORPEA GROUP'S OVERALL ENVIRONMENTAL POLICY

Environmental constraints result mainly from regulations applicable to all of the Group's facilities: managing hazardous waste, managing water quality, managing the health security of residents and patients, and so on.

Strongly committed to intergenerational transmission by virtue of its core business, the ORPEA Group has initiated an eco-responsible approach to reduce energy consumption and waste of its establishments, involving its entire staff.

A Steering Committee made up of the Purchasing, Works-Construction, Quality and Communication departments was set up to oversee these initiatives; it meets every two months and monitors the four main aims that guide the ORPEA Group's environmental protection actions in Europe:

- reducing energy use (essentially gas and electricity) and water consumption;
- managing healthcare waste production;
- environmentally responsible purchasing;
- cutting CO_2 emissions caused by travel;
- action to combat food waste.

The Group also works to develop ways to prevent environmental damage and raise awareness about environmental protection at the facilities, aimed at both employees and residents, patients and visitors, to provide general information on sustainable development and circulate good practice and environmentally responsible attitudes.

For example, ORPEA requires all its Business Units to monitor their water and energy consumption accurately, and to implement a policy designed to reduce their environmental impact (identifying the most energy hungry and the most energy efficient facilities, determining best practices, raising employee awareness about ecological behaviour, etc.).

The aim is to teach everyone to respect the environment through simple everyday gestures, and to adopt eco-responsible behaviour.

For example in France, communication kits have been produced to complement the actions already implemented in some facilities as part of their quality certifications. These kits are available in all facilities and are being adapted in other countries.

During the year, Germany continued to strengthen its monitoring of energy data through an energy monitoring optimisation process and, in particular, by further reducing the number of energy suppliers.

In Italy, the campaign to replace conventional lighting with LED bulbs continued throughout the year.

In its capacity as the contractor of its facilities, ORPEA furthers this action by emphasising the quality of the construction of its premises and the maintenance of its facilities in order to limit their impact on the external environment, while ensuring healthy and comfortable living conditions for its residents and patients.

For several years ORPEA has adopted a broader sustainable development approach, bringing partners and suppliers together to help cut energy consumption (water, gas, electricity) and promote eco-friendly products that pollute little or not at all.

To formalise this approach, an action plan was set out in France after the carbon assessment conducted at the end of 2012, and a structure was set up to harmonise environmental practices within facilities and coordinate initiatives. The carbon assessment was repeated in 2015 and indicated a 7% fall in greenhouse gas emissions on a like-for-like basis, higher than the 5% target the Group had set itself three years ago. A further assessment will be conducted in 2018 across the three scopes (direct and indirect emissions).

The Austrian, German and Swiss facilities are currently not subject to legislation requiring greenhouse gas emissions assessments to be carried out.

In addition, and in accordance with French regulations (Decree no. 2013-1121 of 24 November 2014, adaptation of European Directive 2012/27/EU of 25 October 2012 on energy efficiency), between June and July 2015 the ORPEA Group carried out an energy audit of its activities in France.

Energy audits were also carried out by the facilities in Germany (in accordance with DIN EN 16247-1, EDL-G). Given the European objective of lowering energy consumption by 20% out to 2020, the nursing homes have been asked to carry out an energy audit every four years. Audits have been carried out in some of the facilities. In 2017, the results of these audits were combined and analysed. As a result of the analysis, a study programme was implemented. The results will form an integral part of the 2018 budget process for the next five years.

In Poland, an energy audit was carried out internally by the Purchasing Manager, who renegotiated contracts with energy suppliers in 2017.

Switzerland has no legislation requiring energy audits to be carried out, but all new buildings must take into account the criteria linked to the Minergie building standard which seeks to minimise energy consumption and make wider use of renewable sources of energy while ensuring improved quality of life, more competitiveness and less damage to the environment.

In accordance with regulations, the Group's Austrian subsidiary sent its energy data to the Austrian Energy Agency (*Energieagentur Österreich*) and conducted energy audits in 2016 and 2017.

The ORPEA Group has not set aside any provisions for environmental risks.

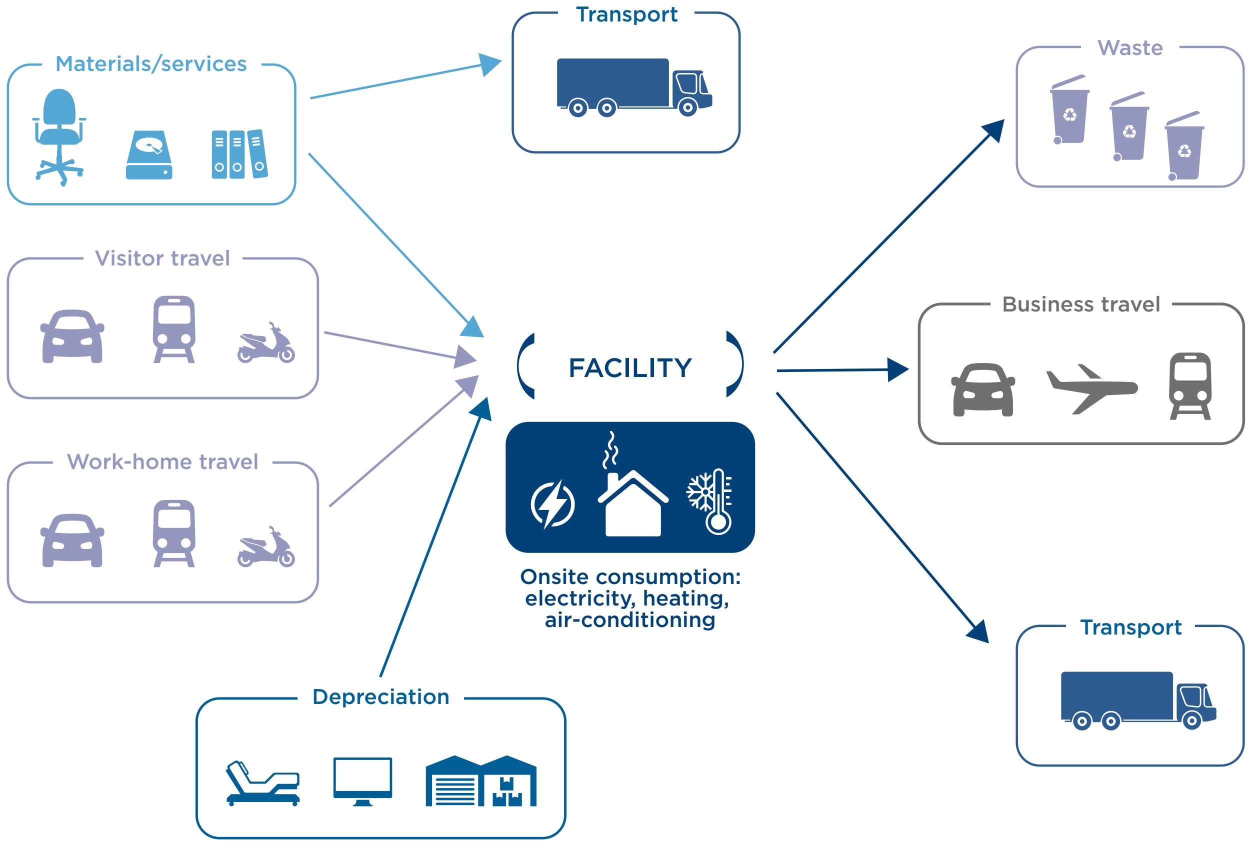
3.2.2 CLIMATE CHANGE

GREENHOUSE GAS EMISSIONS

At the end of 2017, ORPEA performed a carbon assessment of greenhouse gas emissions generated by its facilities in France, with the help of a specialist carbon consulting firm which is a member of the APCC (ECO 2 initiative).

The assessment covered all facilities controlled by ORPEA in France and 100% of the emissions of the assets and activities over which ORPEA has operational control were taken into account.

At facility level, the operational scope encompasses all sources of greenhouse gas emissions caused by its business operations. These sources are shown in the diagram below and include all greenhouse gas emissions generated directly or indirectly in upstream or downstream business processes.



CO_2 EMISSIONS FROM ENERGY CONSUMPTION IN 2017

Emissions of CO_2 from electricity consumption vary between countries depending on how electricity is produced (for example *via* hydroelectric, nuclear or thermal power stations).

2017 data	Unit	Total	France	Italy	Spain	Belgium	Switzerland	Germany	Czech Republic	Poland	China	Austria
Scope 1*	Tonnes of CO_2	72,169	37,124	1,995	4,019	7,914	2,275	13,977	620	543	85	3,617
Scope 2*	Tonnes of CO_2	58,422	9,420	3,246	4,681	4,260	489	21,658	2,022	906	3,091	8,649
TOTAL	**TONNES OF CO_2**	**130,591**	**46,544**	**5,241**	**8,700**	**12,174**	**2,764**	**35,635**	**2,642**	**1,449**	**3,176**	**12,266**

* *Scope 1: direct emissions (fuels).*
** *Scope 2: indirect emissions (electricity and other energy).*

For Scope 1, the following conversion factors were applied to all countries:

- Fuel oil: 0.263 kg of CO_2 per kWh;
- Natural gas: 0.202 kg of CO_2 per kWh;
- Propane gas: 0.223 kg of CO_2 per kWh;
- Wood: 0.033 kg of CO_2 per kWh;

For Scope 2, the following conversion factors were applied:

- Switzerland: 0.0273 kg of CO_2 per kWh;
- France: 0.0647 kg of CO_2 per kWh;
- Belgium: 0.220 kg of CO_2 per kWh;
- Spain: 0.238 kg of CO_2 per kWh;
- Italy: 0.406 kg of CO_2 per kWh;
- Germany: 0.461 kg of CO_2 per kWh;
- China: 0.766 kg CO_2 per kWh;
- Poland: 0.781 kg CO_2 per kWh;
- Czech Republic: 0.589 kg CO_2 per kWh;
- Austria: 0.188 kg of CO_2 per kWh.
- District: heating, the electricity conversion factor for each country was applied.

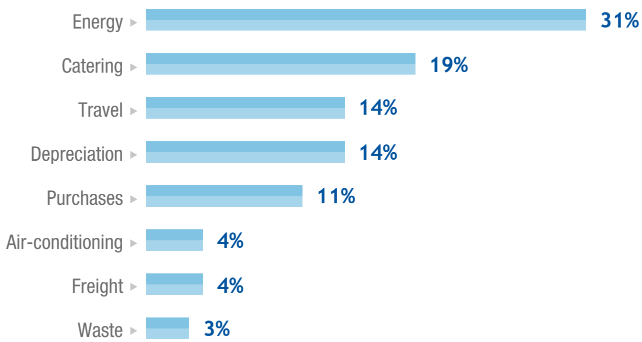
The energy efficiency of buildings is the most important area of focus for the ORPEA Group in its sustainable development approach.

ORPEA has already committed to a strategy of reducing future CO_2 emissions at its facilities, thereby contributing to the fight against climate change, both for new buildings under construction (renewable energy, eco-design and eco-management) and for existing facilities with the ongoing measures set out in its multi-year plan.

OTHER INDIRECT EMISSIONS

The ORPEA Group's carbon assessment on the France scope for 2017 revealed that the largest source of emissions (31%) is energy consumption in the facilities (electricity and heating).

In keeping with its service and accommodation business, the next two largest sources are catering (19%), for food production, and travel (14%), whether employees (home/work/home) or patients and/or visitors.



ORPEA therefore continues its policy of minimising the impact of its business travel, by travelling only when necessary and only flying when absolutely necessary.

Wherever possible, the Group holds teleconferences. Since 2016, all Business Units have used videoconferencing wherever possible, which contributed significantly to reducing staff travel. However, given the Group's growth and its business activity, there will always be a certain amount of travel that cannot be avoided (visits to facilities, etc.).

The vehicle fleet was optimised in all countries by preferring models with lower CO_2 emissions and through a policy to promote cleaner vehicles.

In addition, to combat greenhouse gas emissions caused by food production, the Group has introduced a food purchasing policy that reduces the number of deliveries by food suppliers (for example, once a week for groceries) and encourages the use of dual-temperature trucks that can carry both frozen and fresh produce.

ADAPTING TO CLIMATE CHANGE

The ORPEA Group's facilities, wherever they are located, are equipped to cope with heat or cold fronts that could endanger the health of residents and patients.

The Medical Department has drawn up procedures and protocols (staff mobilisation, hydrating residents, adapting diets, etc.) to be applied in all the Group's facilities, and staff training has been organised to guarantee the continued care and well-being of residents.

All countries respect national and regional regulations in force.

All facilities have signed an agreement with a nearby hospital or clinic in order to set out the terms of cooperation and in particular the admission of residents weakened by a heatwave.

Temperatures are checked weekly in every facility; cooled rooms have been installed (and are regularly serviced) in all of the Group's facilities in France, Italy, Spain and Belgium in addition to blackout blinds for the most exposed façades; some facilities situated in the hottest areas or where there is a regulatory requirement are fully air conditioned.

Moreover, preventive measures have been put in place at facilities at risk of other climate events such as flooding.

Each of the Group's facilities has drafted a *Plan Bleu/Blanc*, or Crisis Management Plan, which is activated to reduce the health consequences of a risk event as soon as weather alerts are issued.

3.2.3 PREVENTING POLLUTION AND MANAGING WASTE

The maintenance officer for each facility is responsible for removing waste, in line with a clear protocol.

CLINICAL WASTE MANAGEMENT

In 2017, 576 tonnes of hazardous clinical waste was produced in France, compared with 579 tonnes in 2016. The calculation of production is based on quarterly production tables supplied by the service provider. To calculate the weight of hazardous medical waste, a volume/weight conversion table is applied.

Belgium produces 7.9 tonnes of hazardous clinical waste.

As the definition of hazardous clinical waste is not the same under French and Belgian regulations, nor is the level of medical care required by residents, it is not possible to compare data by country.

In addition, in other countries where ORPEA operates, the method of collecting hazardous clinical waste is different (collected by a local service provider) and does not allow the total volume to be identified.

All of the Group's facilities comply with local regulations concerning the management of hazardous clinical waste.

All facilities are equipped with special receptacles for collecting certain types of waste: containers for needles and sharp objects, and "Cliniboxes" for other waste.

Waste is removed by an authorised company under a service agreement. This company is also committed to providing caregivers with training at each facility.

As required by law, each facility keeps waste destruction records for three years for traceability purposes.

These agreements and traceability documents are kept available for the relevant authorities.

ACTION PLAN TO REDUCE OVERALL WASTE PRODUCTION

At present, it is not possible to systematically quantify the volume of waste produced as waste is collected primarily by public operators.

However, each facility has introduced a selective sorting policy in line with local municipal rules.

Training and awareness-raising initiatives have been implemented with teams and suppliers to remind them of best practice when compacting waste (for example cardboard boxes and bottles) and sorting rubbish, as well as to combat waste.

ACTION TO COMBAT FOOD WASTE

The ORPEA Group has a policy for preventing food waste, which arises from two sources:

- food production, *i.e.* producing more food than is required to meet needs. The Group combats this risk by using weight specifications based on diner type (*e.g.* elderly person, person in rehabilitation, adult at work, etc.), which defines the quantities of goods to be ordered from suppliers and the amounts to be taken out of store for preparing meals;
- food consumption, *i.e.* serving portions that are too big for the needs of diners. The Group combats this risk by monitoring how much is thrown away after meals. Based on that information (and on diner feedback), the Group identifies the least popular recipes and takes them off the menu. It also adapts the portions served, leaving diners the option of having seconds depending on their appetite.

For both of these risks, the Group draws up a daily list of staff present at meals in order to have a more precise idea of the amount of food to be taken out for preparation and the exact number of meals to be served, and also to better prepare the portions of food to be served.

The Group also produces its meals onsite at each facility. In addition to quality of service, this strategic choice allows each facility to better identify its own food needs, both in terms of quantity and quality.

The Group's Sustainable Development Steering Committee also addresses the issue of food waste in order to think about areas and ways of improvement.

3.2.4 SUSTAINABLE USE OF NATURAL RESOURCES AND ENERGY

As part of its ongoing action plan, the ORPEA Group wants to make a commitment to reducing energy consumption in its facilities by optimising the use of resources.

This procedure entails monthly checks and analyses of energy consumption to identify problems (for example leaks, excessively high consumption, and benchmarking of sites) and facilities with a high level of energy consumption. Training initiatives are arranged to give the facilities all the tools they need to manage the energy efficiency of their buildings (centralised technical management, etc.).

In France and Switzerland, ORPEA monitors its meters, and of course its bills, using a consumption-tracking platform.

Other Business Units produce a weekly report.

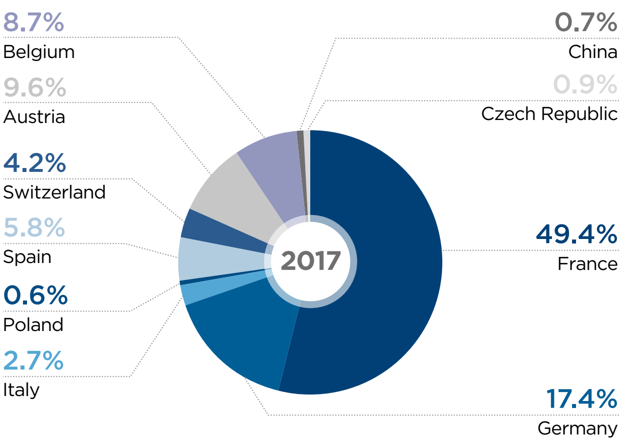
All identified anomalies are dealt with immediately. Each facility has an independent agent responsible for the everyday maintenance and repairs of the building, including water leaks.

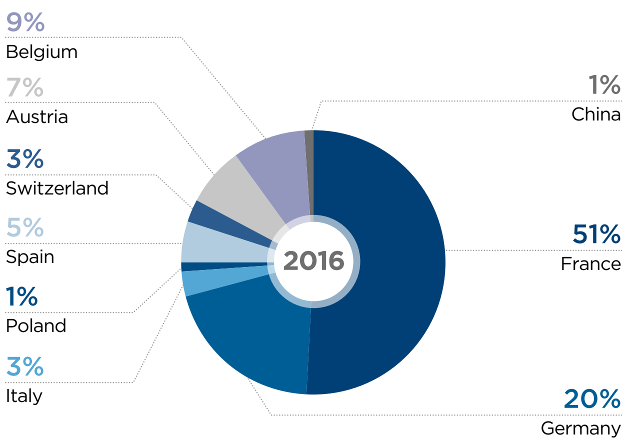
ELECTRICITY AND HEATING CONSUMPTION AND MANAGEMENT

2017 data	Total	France	Italy	Spain	Belgium	Switzerland	Germany	Czech Republic	Poland	China	Austria
Electricity *(in MWh)*	267,087	144,872	6,857	19,669	19,362	11,574	35,079	1,824	908	2,368	24,574
District heating *(in MWh)*	402,512	186,149	11,016	19,260	38,768	16,424	81,763	4,678	2,820	2,087	39,547
TOTAL	**669,599**	**331,021**	**17,873**	**38,929**	**58,130**	**27,998**	**116,842**	**6,502**	**3,728**	**4,455**	**64,121**

The types of energy used for heating are town gas, propane, fuel oil, wood and district heating. N.B. The figures include electric heating where this can be separated from other electricity uses.

Change in breakdown of total energy consumption by country





ORPEA wants to reduce the energy consumption of its buildings as much as possible, by installing energy saving equipment:

- fitting of low-consumption lighting (all new buildings are equipped with LED lighting) as and when existing light bulbs and lamps are replaced;
- optimisation of procurement contracts with energy suppliers for the entire European network;
- fitting of sensors to reduce electricity consumption.

In 2016, energy consumption amounted to 616,361 MWh across 10 countries (France, Italy, Spain, Belgium, Germany, Austria, Czech Republic, Poland, China and Switzerland), compared with 669,599 MWh in 2017 across the same 10 countries but with an overall greater number of beds and facilities.

WATER CONSUMPTION AND MANAGEMENT

2017 data	Total	France	Italy	Spain	Belgium	Switzerland	Germany	Czech Republic	Poland	China	Austria
Water *(in cubic metres)*	4,070,861	1,948,777	98,227	356,388	265,120	202,945	674,012	35,896	18,510	34,572	436,414

In 2016, total water consumption amounted to 3,445,390 m^3 across 10 countries (France, Italy, Spain, Belgium, Germany, Austria, Czech Republic, Poland, China and Switzerland) but with fewer beds and facilities than in 2017.

To reduce its water consumption and having installed aerators in all its French facilities in 2014 and its Belgian facilities in 2015, the ORPEA Group continued to equip its facilities in the other countries as of 2017.

The ORPEA Works Department ensures that the hot water systems of all facilities are compliant and present no risk. It also checks that water systems are maintained regularly and properly by the maintenance firm in charge and by the maintenance officer in each facility.

Staff as well as residents and patients are made aware of the need to use water wisely, and regular training sessions or information/awareness meetings are held.

CONSUMPTION OF RAW MATERIALS AND MEASURES TO IMPROVE EFFICIENCY IN THEIR USE

The Group has embarked on a policy of controlling the consumption of raw materials in order to limit the depletion of natural and non-renewable resources.

Actions have been undertaken on office paper consumption, both in terms of the use of recycled paper and the monitoring of consumption. Whether for all facilities or the Head Office, ORPEA has selected responsible partners with which it has developed waste separation and recycling procedures for different waste types. They have been provided with special equipment.

No matter the weight or size, all electrical items and components are recovered. For example, printer cartridges are collected by companies that are specialists in recycling these items.

ECO-DESIGN AND ECO-MANAGEMENT OF BUILDINGS

As ORPEA has an in-house project management department, it quickly realised the importance of sustainable development in its business. For several years, ORPEA has been committed to considering environmental aspects and energy-saving problems in the specifications for these new building projects.

As part of the Group's overall environmental policy, it aims to balance energy saving and quality of life at its facilities for residents, patients and staff.

ORPEA aims to build facilities that are more energy efficient, and which blend in better with the environment (accessibility, landscaping, urban integration) while offering optimal quality of life for residents, patients and staff.

Building architecture favours visual and acoustic comfort, as well as natural light.

The Group is particularly attentive and innovative when it comes to designing living spaces centred on the autonomy and well-being of residents by making use of materials, colours and light.

As of the building design stage, ORPEA makes sustainable and environmentally respectful choices, particularly in France although these practices are gradually being spread to other countries.

1. **The building and its environment:**
   - paying attention to the building's positioning on the land, particularly with regard to course of the sun,
   - choosing a location for the building in line with the layout of the land,
   - placing the main façades to the East and West and making sure they are well lit,
   - using the support of an acoustician in the classification of passages and the handling of the façade,
   - conducting impact studies of future installations on the environment (neighbours, etc.);
2. **Building design:**
   - accessibility of the facility for people with reduced mobility. This criterion is crucial, as the Group's facilities care for dependent people,
   - designing buildings to limit thermal bridges (for example limiting the number of balconies, using specific balcony treatments where they exist, and using exterior thermal insulation),
   - separating technical equipment from the building structure (*e.g.* anti-vibration mounts, etc.),
   - natural lighting for premises with a workstation,
   - separating storage for everyday waste and special storage for food waste,
   - focus on passive design features to keep buildings cool in the summer and warm in the winter;
3. **Technical and technological choices:**
   - obligation of performance on appointed contractors (*e.g.* minimum light levels),
   - depending on the context, rain water treatment (retention tank), solar water heating (if sufficient yield),
   - thermal modelling,
   - use of energy efficient technologies (widespread use of LED lighting, motion detectors, etc.),
   - use of a mimic panel for hot water production,
   - for large rooms, dual flow ventilation with energy recovery.

The building project department ensures that all French and international sites, for both construction and renovation work, undergo special studies to limit the burden on the environment (noise and other pollution).

For example:

- for all new buildings, a building management system is implemented to programme and centralise the heating and cooling of the premises;
- in Italy, all new buildings are designed to be classified as low energy consumption;
- in Switzerland, all new facilities meet the requirements for the Minergie label;
- in Belgium, an environmental approach is taken for all new construction (external insulation, dual-flow ventilation, aerators, etc.).

Lastly, before purchasing land, ORPEA ensures that the soil is not contaminated and, if necessary, carries out soil remediation.

3.2.5 PROTECTING BIODIVERSITY

ORPEA's activity has little effect on biodiversity.

In terms of land use, open spaces are planted as much as possible.

3.3 INFORMATION ON SOCIETAL COMMITMENTS

3.3.1 A STRONG COMMITMENT TO PROMOTING REGIONAL LIFE

SUPPORTING LOCAL ECONOMIC GROWTH

Contribution to local economic life through employment

With regard to the regular opening of new facilities in Europe, every year ORPEA creates many permanent jobs that cannot be relocated (on average over 50 employees for a long-term care facility and 100 employees for a clinic). The vast majority of vacant positions in the ORPEA Group are under permanent contracts, in the fields of medicine, care, accommodation & catering, social activities organisation and administrative services.

Moreover, with more than 12,300 beds under construction or redevelopment throughout Europe, ORPEA also indirectly contributes to keeping thousands of construction workers in employment.

In addition, through its construction and renovation projects, the Group is contributing to urban development, by helping to develop new urban areas and renovate old districts, and even to the preservation of the nation's cultural heritage by restoring old buildings.

With a network of almost 800 facilities in Europe, ORPEA is an important regional economic player, in no small measure by paying local taxes.

A local recruitment policy encouraging partnerships with schools and training institutes

The Group has always pursued a local recruitment policy to become more involved in local economic life and fosters close relationships with employment agencies and educational institutions (in France, the Group supports almost 500 educational institutions that received the apprenticeship tax in 2017).

To attract new talent to the Group and enhance its image and that of its sector among future graduates, ORPEA has established strong local partnerships with paramedical schools (care workers, nurses, etc.), business schools and universities. These partnerships result in:

- **the intake of many trainees and employees on combined work-study contracts with the aim of promoting the Group's facilities among students and thus incubate candidates for future recruitment.** For example, in 2017 in France, ORPEA continued its policy of partnering with many training institutes such as Toulouse Business School and the *École des Psychologues Praticiens*, as well as with the *InterSyndicat National des Internes en Médecine* with a view to raising the profile of the Group's facilities and attracting future doctors for internships as well as locum and salaried positions. Similarly, in Belgium strong partnerships have been forged with various training institutes, mainly in paramedical professions (degree in nursing care and geriatric specialisations, certificate in nursing care, KEL, care workers). These partnerships cover the intake and monitoring of students on internships, meetings and debriefings with the training institutes, ORPEA Belgium's participation in funding internship grants, job days in the training institutes and presentations on geriatric issues to students in the training institutes. In Switzerland, Senevita's facilities partner the "*Fachfrau Gesundheit*" training provided by *Oda Gesundheit Bern* to raise their profile among young healthcare trainees. In Spain, ORPEA Ibérica provides courses in geriatric practices for psychology students at the Complutense university in Madrid and for medical and dental students at the CEU San Pablo University. In Poland, one Medi-System facility is a training ground for rehabilitation professionals and another for nursing staff.

  In Germany, the Group's psychiatric facilities have forged a partnership with the psychology and pysiotherapy training institutes to provide courses and train future professionals, as well as a training programme for all its care workers, soon to be extended to its therapists. In China, 80 Chinese doctors and nurses received training in geriatric care during 2017. The training was provided in ORPEA's Nanjing facility and led to the award of the joint diploma from ORPEA and the Peking Union Medical College Hospital (PUMCH);
- **the development of specific training programmes, first to meet the Group's real needs in terms of skills, and second to satisfy the aspirations of Group employees, assisting them in achieving their professional goals.** For example, a partnership has been forged with Ducasse Conseil to offer a customised training programme for chefs in the French facilities. A training course leading to the award of a recognised diploma has also been devised by ORPEA in association with *Sup Santé* (a leading institute for medical entry exam preparation), with the aim of obtaining certification for its nursing home manager qualification. Like any new diploma, it could be recognised and included on the national register of professional diplomas as of the fourth intake (with retroactive effect for all previous intakes).

  In addition, the partnership with ESCP Europe and INSEEC continues, offering a specific management training programme leading to a recognised diploma.

Lastly, through a partnership with the University of Nice initiated in 2016, all new facility Directors completing the induction course are awarded an international university diploma in "Care Facility Management". First launched in France, this management programme is now being deployed in all countries where ORPEA operates and the theory courses are being adapted to the specific needs of each country. Austria and Switzerland accepted their first intake in 2017 and the diploma is currently being rolled out in Germany, Italy and China. For consistency of training and education, the diploma will always be awarded by the University of Nice, in partnership with local universities depending on the country.

Within its recruitment policy, ORPEA attaches great importance to human qualities, as well as the diversity of its teams. As such, the Group promotes the employment of young people and the retention of older workers to ensure the transfer of knowledge and skills.

To meet the needs of this recruitment model, a partnership has been signed in France with *Défense Mobilité*, an organisation that helps former military personnel and their spouses retrain for a new career after they leave the armed forces. In Spain, the Group works actively with the Sports Superior Council (part of the Ministry of Youth and Sports) to help top athletes find employment once their sporting career is over.

ORPEA also promotes the inclusion and employment of people with disabilities.

An agreement has been signed in France for this purpose. In Spain, a number of partnerships were forged and developed in 2017 with the Randstad Foundation and the Caixa Foundation to promote the professional inclusion of people with disabilities, with the Fremap departments (Spanish social security entity) for recruitment, and with the Aprocor Foundation for job assistance and support.

HELPING TO BUILD A REGIONAL CARE NETWORK

All ORPEA Group facilities in all countries establish cooperation agreements or work closely with hospitals, clinics and home care services so as to ensure continuity of care and offer coordinated care at every stage of dependency.

For example, in France the post-acute and rehabilitation care facilities partner with the local hospital groups (*Groupements Hospitaliers de Territoire* – GHT), the aim of which is to define and implement a local medical and care strategy to provide patients with a holistic, coordinated approach to the care they need. For example, the Navenne rehabilitation facility works closely with the GHT in the Haute-Saône department.

Similarly, **in France**, all post-acute and rehabilitation care facilities that have specialised beds for geriatric care belong to the geriatric networks in their region. For example, in the Finistère department of Brittany, the Group's post-acute and rehabilitation care facilities and its psychiatric care facility (which has a geriatric psychiatric service) belong to the Ouest Cornouaille geriatric network alongside the general hospitals and a non-profit public hospital. In the Berry region, the Group's psychiatric care facility has joined the addiction care network alongside the Centre Hospitalier du Blanc.

In Spain, ORPEA Ibérica works regularly with various teaching hospitals not only to ensure continuity of care and to coordinate the intervention of specialists within the nursing homes but also to train staff (Puerta de Hierro, 12 d'Octubre, Getafe, Jimenez Diaz Foundation, Henares and Infanta Sofia). In 2017, these partnerships were strengthened though the introduction of "Update Days" for staff in the various hospitals. Specific cooperation agreements have also been implemented with the Emergency Service and specialised services at the "Principe de Asturias (Alcalá de Henares)" teaching hospital.

In the Tyrol region of **Austria**, SeneCura is an active member of the Integrated Social and Health Network.

In Belgium, functional geriatric liaison agreements have been entered into with the local hospitals and clinics. Under these agreements, meetings are also organised between staff to promote exchange and improve coordination of practices. In 2017, these meetings addressed issues such as communication tools between the hospital and the care facilities, incontinence and visual disorders.

Lastly, as part of this open, cooperative approach, the Group's facilities promote meetings with local healthcare professionals, to build relationships and share best practices by organising professional events such as symposiums and conferences. Many issues are addressed, including in 2017: "gerontology and prevention of cardio-vascular disease"; "emotional memory loss"; "well-being within reach"; new technologies in care facilities; the fragility of the elderly, etc.

In Italy, these meetings actually take place within the Group's facilities.

INVOLVEMENT IN LOCAL AND COMMUNITY LIFE

The Group's facilities help to support local and community life.

They invite local cultural or musical associations and local artists, for example, to take part in their programme of events and therapeutic workshops.

In addition, every facility, region and subsidiary of the ORPEA Group undertakes numerous charitable initiatives for the benefit of local organisations to help play a role in community life and integrate into its host region. ORPEA believes that its teams will be much more inspired by local projects, and as such that their support for them will be more committed and creative, helping foster a true spirit of solidarity in their city or region. Thus, many initiatives have been undertaken in all countries mainly focused on:

- children, as intergenerational exchanges are beneficial to nursing home residents, who rediscover their role as elders, responsible for transmitting knowledge;
- disability and assistance to the families of chronically ill patients, and medical research, in view of the Group's core business;
- solidarity and togetherness to help people who are isolated or in social or financial difficulties.

But solidarity begins with the fight against social isolation. By taking an open approach to the external world and enlivening institutional life, all of the Group's facilities contribute in their own way to the development of social ties within their host city. Whether through open days, on calendar festivals or in the form of neighbourhood parties, many facilities regularly welcome neighbours, associations and residents of the town for a moment of conviviality and exchange. In the summer of 2017, a community outreach programme was implemented and will be renewed; during periods of heatwave, the Group's facilities took in local isolated elderly people for an afternoon, free of charge, as a mutual support and preventive measure.

EXAMPLES OF PARTNERSHIPS AND LOCAL COMMUNITY PROJECTS

To promote solidarity and togetherness

In Belgium, the Group's facilities organised various events to raise money for the Comequi association, which supports the rural population living on the shores of lake Kivu. The funds raised will help the association to implement sustainable development actions that improve living conditions. As regards the elderly in particular, Comequi's aim is to enable them to end their days with dignity and in a minimum of comfort.

In France, the facilities in the Est region set up a philanthropic initiative which will continue into 2018 to donate medical and paramedical equipment to the rural populations of Aït Aizza and Aït Igass in Morocco's Taroudant province.

The Côte d'Azur facilities have raised a total of €17,300 to fund the training of a sports coach and create a wheelchair volleyball section at the Volley Pradetan Garden club.

ORPEA regularly supports teams taking part in fund-raising rallies such as the 4L Trophy, the *Rallye des Gazelles* and the *Trophée Roses des Sables*, the aim of which is to promote associations that support local populations.

During the end-of-year festive period, the facilities in the Rhône-Alpes region organised a "Celebrating Christmas together" campaign, enabling isolated elderly people to share a Christmas Eve celebration meal. In the same vein, several ORPEA Ibérica facilities joined forces with the "No elderly person without a Christmas gift" campaign, by helping to distribute gifts to elderly people hospitalised in the Madrid region.

In Spain, ORPEA staff once again took part in community sporting initiatives in 2017, which also served as opportunities to strengthen team cohesion, including the Water Run and the "*Sueno de Vicky*" fun run against children's cancer. Meanwhile, **in China**, ORPEA China organised a charity event in association with the Red Cross and other local associations to raise money and to make the general public aware of neuro-degenerative diseases. In exchange for a donation of 50 yuans, people were offered advice on how to provide home care for an elderly person suffering from dementia.

In favour of children and intergenerational links

In France, for the second consecutive year, most of the Group facilities supported the "Imagine for Margo" association, which raises funds to finance new therapeutic programmes for children with cancer. Throughout the year, hundreds of events were organised at the care facilities, raising a total of more than €180,000, and more than 800 employees took part in the "Children without cancer" fun run organised by the association, of which ORPEA became an official partner in 2017. As this partnership proved so popular with staff, it has been renewed in 2018.

In the Aquitaine region, the Group's facilities developed an outreach project in 2017, which will continue in 2018. It aims to develop intergenerational relationships between young people, people with disabilities and elderly people through a project to renovate a fishing smack which is part of the local Arcachon basin heritage. The project won an award at the 2017 *Silver Eco Show*. The renovation was funded by more than €10,000 of donations and brought together the residents and staff of ORPEA facilities, a senior citizens' association and a training centre for disabled adults (IME/ADAPEI "*L'Étoile de Mer*" in Taussat). The fishing smack is now available to the various partners of the project, as well as the Bordeaux children's hospital, the "*Marche Rose*" association, local high schools and various senior citizens' associations, providing further opportunities for get-togethers and outings across generations.

The facilities in the Rhône-Alpes-Auvergne region partnered the re-housing campaign "*Une clé pour les mal-logés*" led by Habitat et Humanisme. Throughout September 2017, 1,500 students collected donations in the streets of Lyon by selling various items and objects. The funds were put towards renovating apartments in an intergenerational apartment block, which houses young students, young homeless mothers and isolated elderly people. ORPEA committed to donate €1 for every euro raised, making a total of €20,000.

The La Talaudière facility contributed to funding a project led by *Les Blouses Roses* association to restructure the paediatric emergency service at Saint-Étienne hospital.

In Germany, staff at some Celenus Kliniken facilities also took part in fun runs in 2017 to raise funds for sick children.

In Spain, the Group's facilities took part in "*El Rastrillo de Nuevo Futuro*", a community event to help children at risk of social exclusion.

In 2017, ORPEA Ibérica also extended its partnership with "*Adopta un Abuelo*", which aims to develop intergenerational exchanges in its facilities through a programme of social get-togethers between young people and the residents. This gives elderly residents a sense of worth through the advice and wisdom they can contribute and imbues young people with the values and experience of their elders.

In favour of the environment and the protection of local heritage

Throughout 2017, ORPEA's care homes in the Aquitaine region organised many events to support *Les Voies Navigables de France*, an association that protects and maintains navigable waterways, which are an important factor in local tourist appeal.

Events included garage sales, raffles, flower markets and themed meals, raising a total of €2,500 for VNF, as well as many awareness-raising campaigns organised by the Group's facilities, including symbolic tree-planting in their grounds.

In favour of medical research

ORPEA also contributes to the development of associations working in the medical research field:

- **neuro-degenerative diseases and dementia:** in Italy, ORPEA Italy supports the Geriatric Research Group Foundation and benefits from the experience of their experts once a year at a day's seminar on dementia; in Austria, SeneCura's facilities support a research programme run by the Karl Landsteiner Institute; in France, the Group's nursing homes support the local branches of *Association France Alzheimer* through various events, while the Group supports the national association;
- **cancer:** through various community events organised by the Group's facilities, raising funds to finance therapeutic programmes: in Italy for the *Associazione Italiana per la Ricerca sul Cancro* (AIRC); in France for the "Imagine for Margo" association and the "*Ligue contre le cancer*", notably for the "*Octobre rose*" operation which attracted strong staff involvement in 2017, and through staff participation in various local sporting events such as the "*Foulée des demoiselles*" fun run in the Var to promote the fight against breast cancer;
- **loss of sight:** in Belgium, ORPEA supports the "*Ligue Braille*" and in France, the facilities in the Centre region support the Anjou guide dogs for the blind association.

In Austria, SeneCura partners the *Netzwerk Lebensende's* end-of-life palliative care research programme.

In France, the Group supports Hôpital 2000, which campaigns for pain management. In 2017, ORPEA funded the purchase of morphine pumps.

ORPEA is also a committed player in the Telethon. Involvement was once again strong last year: walks and sporting challenges (including at the Group's headquarters), sales of objects, themed meals, exhibitions, shows and raffles were held in facilities to raise money. More than €20,000 was raised for the AFM Telethon and research.

In 2017, the CLINEA Post-Acute and Rehabilitation Care Division led an initiative to support the Grégory Lemarchal association and the fight against cystic fibrosis, including charity events, an awareness day and philanthropic actions.

In Switzerland, Senevita partnered the "*Humorkongress*" congress which promotes laughter therapy as part of a care programme.

3.3.2 A COMMITMENT TO PROMOTING HEALTHCARE EDUCATION

AWARENESS, INFORMATION AND PREVENTION

In all countries where the Group operates, ORPEA strives to open up its facilities to the outside world to make them genuine meeting places. All of the Group's facilities regularly hold open days to give the public information, raise awareness, advise on prevention and help as many people as possible to learn to look after their health and to age well:

- help for carers;
- balance and preventing falls;
- diet and nutrition;
- sleep;
- supporting a relative with Alzheimer's.

These open days are an opportunity for the local population to get information and advice *via* practical conferences and workshops, to meet health professionals, and to share experiences with other families. The aim is to support carers and promote the proper care of people at home.

These days are often an opportunity to form or strengthen partnerships with local associations (especially on World Alzheimer's Day in which most Group facilities take part), establish constructive exchanges with local authorities, and better inform the local media about the challenges of ageing.

In France, to sustain the benefits of its open days, ORPEA publishes booklets to give advice to carers in order to help them assist a relative at home. Various themes are dealt with in this way: helping a loved one with Alzheimer's, grants and subsidies, respite stays and home-care solutions, choosing a retirement home, guide for carers. In addition, "ageing well" leaflets are handed out at theme days on such topics as sleep, balance and fall prevention, nutrition and exercising the memory.

To drive this momentum forward, since 2015 ORPEA has partnered the *Association Française des Aidants*, which campaigns for recognition of the role and place of carers in society. It guides and supports carers on a local level, for example by heading up the national Carers Café network (*Cafés des Aidants®*), running health workshops, and providing training on support-related issues. Under their partnership, ORPEA and the *Association Française des Aidants* develop joint regional initiatives and through its financial support, ORPEA also contributes to the development of projects implemented by the association. In addition, the facilities forge partnerships at local level to develop this approach and open it up as widely as possible. In the Est region, the facilities in the Aube department have developed a cycle of conferences known as the "*Université des Sâges*" in collaboration with the Régéma network, aimed at senior citizens. Now funded by the local authority, the facilities continue to take an active part in its management. Similarly, in the Bouches-du-Rhône department, a partnership has been forged with the *Ensemble Vieillir avec Alzheimer* (EVA) association to support people caring for a relative suffering from a neuro-degenerative disease. In Switzerland, Senevita's nursing homes regularly organise open days on the theme of long-term care and neuro-degenerative diseases.

Another example of the Group's commitment to those caring for their relatives is the initiative of the Bois-Bougy clinic in Switzerland which, along with two other care facilities, has joined the programme to assist carers in the canton of Vaud to set up a "Charter of relatives caring at home for a person of any age with a disability or an illness or at the end of their life". The aim of this initiative is to define the status, role and integration of carers in the hospital care of patients. It received the "Clinical Ethics" prize at the first ORPEA Excellence Awards.

In Italy, a similar initiative has been set up with a training and family carer support programme in Turin.

In Spain, ORPEA Ibérica's care homes have developed various actions to provide carers with information and advice. A themed open weekend was proposed by each facility in the second half of 2017 and "Alzheimer's Café" gatherings are organised regularly.

In Poland, still in support of carers, Medi-System staff organised 14 information sessions in 2017 (five hours of workshops on Saturdays) to provide home carers with advice and practical information about caring for elderly people.

Medi-System also contributed to raising public awareness about the effects of ageing by helping to fund an information campaign on depression in the elderly.

A cooperation programme was set up with the Third Millennium University to help senior citizens stay active and in good health.

Lastly, to promote healthcare education among the very young, nurses and physiotherapists from the Kijowska Medical centre run two workshops a year for children at the neighbouring junior school to teach them about health and hygiene.

In Germany, Celenus Kliniken regularly organises conferences and open days on health-related topics at its facilities. These events are open not only to patients and their loved ones but also to the public. Celenus Kliniken is also committed to promoting healthcare education for its employees. Apart from courses on posture and handling & lifting, employees are encouraged to take up a sport and can use the clinics' equipment free of charge.

In Austria, the Group also actively promotes health through physical activity. SeneCura has equipped its facilities with fitness centres adapted to the needs of its elderly residents in order to improve their muscular strength, endurance, coordination and balance. Under its *Fit & Beweglich 77+* (Fit & Flexible 77+) programme, nursing home residents and all locals over the age of 77 have free access to its fitness centres and specially trained instructors. In 2017, the programme was extended beyond the initial 15 participating facilities. It had been pilot tested in 2016 with the Paracelse private medical university in Salzburg and was awarded a prize by the Group's Scientific and Ethics Council at the ORPEA Excellence Awards 2016, in the "Caring Innovation" category. The programme is gradual in intensity and monitored by specialised instructors. It also provides physiotherapy and ergotherapy services as well as dietary and nutritional advice. It has had positive effects on mobility, nutritional status, physical function, confidence, activities of daily living and autonomy. A source of well-being, it has contributed to building a relationship and encouraging exchange with local people, for whom the fitness centres have become a popular meeting place.

In China, open days were organised in 2017 for residents of Nanjing based around discussion groups on degenerative diseases and spa therapy sessions held in the facility by trained professionals.

In addition, many facilities, in both psychiatric care and post-acute and rehabilitation care, have developed healthcare education programmes designed to help patients live well with their illness and/or to extend the gains of hospitalisation after returning home. These awareness-raising and prevention programmes contribute to improving the health and quality of life of patients and relatives.

In Germany, Celenus Kliniken's facilities also propose mutual support groups throughout the year for targeted pathologies to support and train patients suffering from disorders such as Parkinson's and loss of hearing.

In France, some facilities have even had their prevention programmes accredited by the Regional Health Agency as therapeutic patient education programmes; these include La Rochelle and Saint-Raphaël, which teach heart failure patients how to live with their condition, Pau, where classes are given on fall prevention, and Viry-Châtillon, where the facility offers a programme dedicated to functional restoration of the spine in the aim of improving patients' understanding of their backs and giving them a better perspective on pain. The Vence and Colomiers facilities have set up a therapeutic education programme for patients who have suffered from an incapacitating stroke, while at Saint-Estève and Osséja, the programme involves patients suffering from chronic obstructive broncho-pneunomia.

In the psychiatric care field, the Kerfriden facility in Chateaulin proposes a psychoeducation group for patients with bipolar disorder and their families, as do the Haut-Cluzeau, Loos and Montmorency facilities. The Lyon Lumière facility in Meyzieu offers a therapeutic education programme for patients with recurring or persistent depression or similar disorders and the Collines du Revest care centre in Toulon offers a prevention programme to help prevent relapse in alcoholics.

DEFIBRILLATORS IN THE FRENCH FACILITIES AVAILABLE TO EVERYONE

To help prevent the risk of heart failure, the ORPEA group has chosen to fit all of its French retirement homes with medical facilities with a defibrillator.

The installation of these appliances in retirement homes is a strategic move, not only because these places are particularly accessible (being open to the public seven days a week), but also because they are used by vulnerable elderly people. Moreover, the ORPEA group's broad regional network covers several departments, helping provide optimum coverage in France, promoting greater access to defibrillators by as many people as possible.

The information days and defibrillator unveiling days were an opportunity to remind locals that these devices are available to everyone, including non-medical staff (the instructions are shown on a diagram and read out over a loudspeaker) as well as providing usage recommendations (such as cardiac massage instructions).

3.3.3 A COMMITMENT TO ENRICH AND TRANSMIT KNOWLEDGE

EDUCATION AND RESEARCH

The Group's research programmes mainly cover the following areas:

- polypharmacy and drug misuse in the elderly;
- nutrition and diet in the elderly;
- quality of life for the resident/patient and caregiver;
- drug-free treatment;
- professionalism, professional ethics and improvement of professional practices;
- fall prevention.

By ensuring a continuous watch on innovative systems and new treatment approaches, ORPEA aims to find ways to offer ever better solutions to the needs of residents and patients, but also to better meet the expectations of its employees.

With this in mind, the ORPEA Group supports or promotes research projects aimed at improving institutional support.

ORPEA has undertaken several initiatives in this area, the main ones in 2017 being:

1/ **Support for academic research projects: ORPEA Group facilities served as observation and/or experimentation laboratories to verify the hypotheses of clinical researchers or health professionals.**

   The following were of particular significance:

   - in Austria, the "Pain-free residence" ("*Schmerzfreies Pflegeheim*") programme, which aims to improve the detection, care and prevention of pain in institutionalised elderly people, particularly those with cognitive impairment. The programme was first initiated in 2011 as part of a joint collaboration between the Paracelse faculty of medicine in Salzburg and the SeneCura facilities;
   - in Switzerland, under a partnership with the University of Basel initiated two years ago (Institute of Nursing Sciences), a study is being conducted on "Avoidable pain and hospitalisation" to develop concepts and processes to prevent or reduce pain in residents;

- in China, the partnership with Peking Union Medical College Hospital (PUMCH) was strengthened in 2017 through five training sessions in geriatric care (including in Nanjing and Beijing) and the creation of a MOOC in Chinese adapted from a French MOOC. The success of this partnership led the French National Academy of Medicine to work with the Group's international medical department as part of a Franco-Chinese inter-academy cooperation agreement.

2/ **Funding doctorates and contributing to the training effort through corporate research:** five new PhD theses in France:

One in the field of neuroscience devoted to the development and validation of a system for measuring balance in the elderly and the prediction of the risk of fall (Armed Forces Health Department/Pierre & Marie Curie University).

The second, supervised by the Pierre & Marie Curie University and the nursing sciences research chair at Paris 13 University, is a public health thesis focusing on improving the quality of support in care homes for the elderly and their families.

Lastly, at the initiative of the Group's panel of psychologists and the Psychiatry Division, three clinical psychology theses are currently being prepared at Paris-Descartes University, one devoted to the study of institutional psychic envelopes in the operation of an internal psychological unit, one to the use of storytelling as a therapy for adolescents, and the other on the use of projective methods for the study of the relationship between narcissism and object relations in patients with Alzheimer's.

3/ **Continuing the development of the Association for the Promotion of Psychiatric Care in Facilities (APSPI)**, created in 2014 to promote a better understanding and improved psychiatric treatment mechanisms in care facilities. The association conducts theoretical and clinical research and may be led to write and publish journals, cooperate in publications, and provide training. In 2017 it organised its third scientific symposium open to the public on repetition in institutions. It was attended by more than 400 professionals, 60% of whom were external to the Group, from a variety of backgrounds (public and private organisations, associations, care facilities in France and abroad), representing a broad range of different therapeutic approaches.

Moreover, with a view to ensuring the transmission of knowledge, ORPEA either takes part in or initiates vocational training programmes. Examples include:

- creation of a joint diploma from ORPEA and Peking Union Medical College Hospital (PUMCH) for training in geriatric care, the "PUMCH-ORPEA Joint Training Program in Elderly Care";
- creation of an induction course and educational programme leading to a university diploma in "Care Facility Management" from the University of Nice;
- creation of a university diploma in Geriatric Rehabilitation in association with the University of Nice;
- creation of a university diploma in Psychiatric Nursing Care in association with the University of Lille;
- hosting of medical interns in some authorised clinics, such as Meyzieu, Argenteuil, Crosne and Andilly for psychiatry, Fréjus and Marseille for medicine, and Saint-Raphaël for cardiology.

GROUP'S ORGANISATION FOR PROMOTING RESEARCH AND INNOVATION

The Group has set up various bodies to support all these projects:

1/ International Scientific and Ethics Council

In 2017 the Group's International Scientific & Ethics Council (ISEC), founded in 2015, strengthened its action.

Chaired by Professor Alain Franco, its membership has been extended with the appointment of Professor Liu Xiao Hong (Peking Union Medical College Hospital), who adds her experience to that of the existing eminent figures in European Geriatrics: Professor Jean Petermans, Head of the Geriatrics department at the Liège teaching hospital (Belgium), Professor Thomas Frühwald, member of the Austrian Federal Bioethics Committee, and Professor José Manuel Ribera Casado from the Spanish Royal Medical Academy.

The ISEC's role is to address issues relating to clinical and relationship ethics, to analyse and evaluate clinical research and caring innovation opportunities to be developed within the Group, and to ensure the consistency of initiatives in education and training.

As part of this role, ISEC organised the third ORPEA Excellence Awards in 2017, which are designed to promote a responsible and pragmatic clinical ethics culture and to encourage everyone to create, innovate, challenge themselves and continuously improve the care they provide. The Awards reward the most deserving clinical ethics approach, scientific research project, and caring innovation project put forward by teams within the Group.

Three of the 27 entries received from six countries (see inset) won awards:

- in the "Clinical ethics" category, the "Change of Perspective" programme led by the Peter Janssen group in Germany. Based on a major study of the needs, representations and practices of residents, families and carers, and then on employee training, this programme has enabled the number of bed rails used to be reduced by 30%. By focusing on dialogue, teaching and the search for alternative solutions better adapted to needs, the programme aims to reduce the number yet further, with the ultimate goal of "zero containment" set by ORPEA's international medical department;
- in the "Caring innovation/long-term care facilities" category, the theatre workshop in the Les Terrasses des Hauts Prés facility in Uccle, Belgium. Theatre is a common activity in nursing homes, but the originality of this initiative is that residents suffering from cognitive disorders act in a real live local theatre after a dozen or so rehearsals, with the script written progressively depending on what they remember and the talents they demonstrate, monitored closely by caring support staff and a producer;
- in the "Caring innovation/post-acute and psychiatric care facilities" category, the "Deep TMS, a new anti-depressant" study conducted at the Lyon Lumière facility in France. Transcranial magnetic stimulation is a promising new approach to the treatment of severe or persistent depression. It is the first time that a private French facility has used this innovative method.

ORPEA EXCELLENCE AWARDS 2017: 27 ENTRIES FROM SIX COUNTRIES

Clinical Ethics category

1. Reduction of containment measures (Peter Janssen group, Germany)
2. Relational and ethical care issues (CLINEA, Boulogne-Billancourt, France)
3. “Job shadowing”: learning about another job by shadowing someone else in their daily work (CLINEA Eubonne, France)
4. “Six Lacs fun walk” (CLINEA Chamalières, France)

Research category

1. Park’in Group – Group vs individual rehabilitation (CLINEA Paris, France)
2. Re-occurrence of trauma and impact on a dementia process (ORPEA Magagnosc de Grasse, France)

Caring Innovation category

1. A therapeutic train for Alzheimer’s sufferers (ORPEA Asti, Italy)
2. Effectiveness of passive music therapy in patients presenting with severe cognitive and functional decline (ORPEA Madrid, Spain)
3. Conecta (ORPEA Madrid, Spain)
4. Integrative conscience activation therapies (ORPEA Ambérieu-en-Bugey, France)
5. Deep TMS – a new anti-depressant (CLINEA Lyon, France)
6. SeneCurto, the clown that moves the heart (SeneCura Bludenz, Austria)
7. Aromatherapy in long-term care facilities (ORPEA Saintes, France)
8. Animal-assisted therapy (ORPEA Grasse, France)
9. Massage therapy in sheltered units (ORPEA Hirson, France)
10. On stage! – Therapeutic theatre (ORPEA Uccle, Belgium)
11. Self-defence for senior citizens (ORPEA Ambérieu-en-Bugey, France)
12. Olympiads (CLINEA Vétraz-Monthoux, France)
13. Secure somatic care in psychiatry – Medication reconciliation (CLINEA Lyon, France)
14. Short-term intensive care (CLINEA Lyon, France)
15. Mobil’aide, a mobile unit for rural areas (ORPEA Carpentras, France)
16. Fall prevention laboratory (ORPEA Asti, Italy)
17. “*Dia Baïno*” – from education to health to patient therapeutic education (CLINEA Brunoy, France)
18. Certification for pain management in long-term care facilities (SeneCura Vienna, Austria)
19. The “Vallées passport” (CLINEA Brunoy, France)
20. e-Vline – Experimenting with telemedecine (ORPEA Saint-Rémy-lès-Chevreuse, France)

2/ Innovative Projects Management Committee to stimulate and evaluate innovation to serve our residents and patients

ORPEA wants to promote evidence-based innovation for its stakeholders, through a rigorous multi-disciplinary evaluation of projects before their deployment in the Group’s facilities.

It therefore set up an Innovative Projects Management Committee (CGPI) in France in 2016, responsible for identifying, analysing, prioritising and steering innovations in order to assist General Management in its choices. Projects approved may be deployed internationally according to need.

The CGPI is currently reviewing other projects, mainly involving:

- telemedecine (six projects in progress and two under review);
- anti-wandering devices (two projects under review);
- anti-fall devices (three projects under review and one being deployed in 22 facilities);
- pharmacy (two projects under review);
- prevention of musculo-skeletal disorders among carers;
- hygiene.

Other actions carried out in 2017 within the Group include:

- in Italy: following on from the Memory Centre created in the Turin facility in 2016 (early diagnosis and non-drug treatment of cognitive degenerative diseases), a fall prevention laboratory was set up on an experimental basis in the Casamia d’Asti facility, which helped to reduce the number of falls among residents by 50%. The programme is being replicated in other Italian facilities;
- in the greater Paris region: the installation in the Alzheimer’s unit of a secure, personalised door opening system to reduce altercations between residents and intrusions into other rooms, and testing a tablet support to optimise use of digital data and make it easier to trace care or medical acts;
- in France, the co-development of new universes to enhance therapies through exposure to virtual reality offered in some psychiatric facilities.

3/ "Research & Publications" unit

Apart from several articles published in professional care journals, a few articles were published in international scientific journals:

- Al-Salameh A, Bucher S, Bauduceau B, Benattar-Zibi L, Berrut G, Bertin P, Corruble E, Danchin N, Derumeaux G, Doucet J, Falissard B, Forette F, Hanon O, Ourabah R, Pasquier F, Pinget M, Ringa V, Becquemont L (2017). Gender-Related Differences in the Control of Cardiovascular Risk Factors in Primary Care for Elderly Patients with Type 2 Diabetes: A Cohort Study. *Canadian Journal of Diabetes*. Oct. 2013. PII: S1499-2671(17)30069-2. DOI: 10.1016/j.jcjd.2017.08.248. [*Epub ahead of print*];
- Clot-Faybesse P, Bertin-Hugault F, Blochet C, Denormandie P, Rat P, Hay PE, Bonin-Guillaume S (2017). Analgesic Consumption in Nursing Homes: Observational Study about 99 Nursing Homes. *Gériatrie et Psychologie Neuropsychiatrie du Vieillissement*. 15(1):25-34;
- Costantino C (2017). *Transitionnalité, narrativité et traitement du traumatisme – De l'utilisation de la médiation conte dans les soins psychiques auprès des adolescents*. *Revue française de psychanalyse*. 81(3): 109-120.

The following work was coordinated by two employees in the Psychiatric division: Costantino C and Huerre P (coord.) (2017), *Les Médiations numériques et Prise en charge des adolescents*, Paris: Lavoisier/Médecine Sciences, *coll. Thérapies & Psychothérapies*.

SHARING BEST PRACTICES

ORPEA has always sought to facilitate the sharing of best practices so as to benefit its network of facilities, original or innovative approaches to care, and initiatives successfully implemented at a facility that promote the well-being of residents and patients or improve the quality of institutional life.

In this spirit, the subsidiary in each country where the Group is active publishes an internal magazine for its teams to convey and share these initiatives. In France, Ensemble (Together) is published every quarter; in Switzerland, Senevita Post; in Belgium, ORPEA Magazine; in Austria, SeneCura Inform; and in Italy "Con Noi".

The Quality Process and Group structures are involved in this initiative. The regional quality advisers also convey the best practices and interesting initiatives to be considered.

In the same spirit, internal contests, such as the Quality Award (given in France, Belgium and Spain), the ORPEA Excellence Awards for ethics, caring innovation and research (which cover all countries where the Group operates), and the Cookery Contest (France and Spain), also contribute to this virtuous exchange by creating healthy competition and stimulating creativity.

Moreover, several years ago ORPEA established scientific panels to review best professional practices.

These panels enable professionals in different fields to meet, exchange ideas, compare practices, inspire one another and occasionally pool their resources. The ultimate aim of these panels is to improve the care given to residents and patients at facilities within the Group:

- **the panel of psychologists:** for 13 years its practitioners in the fields of psychiatry, post-acute and rehabilitation care, and long-term care have met several times a year and number over 200. The panel encourages cross-cutting collaboration between the Group's practitioners, supports professionals in their clinical approach and continuous training, and encourages cooperation with professionals from other horizons in a continuous progress approach to care for patients and residents. The panel of psychologists organises two meetings a year around an annual theme related to institutional care practices, combining induction days for the Group's new psychologists with study days. For a number of years, the panel has worked on developing original care tools ("Sensimage", self-play, treatment journals for adolescents and patients suffering from addiction, etc.).

  It coordinates the "Clinics – Words from Institutional Practitioners" journal published by Erès twice a year.

  The panel of psychologists runs the emergency intervention unit composed of 20 specially trained practitioners. The unit was set up to provide a common approach to emergency situations in the facilities, *i.e.* extreme events in the life of a facility that could lead to "institutional trauma";
- **the panel of private clinic heads and clinical coordinators:** peer-elected psychiatrists meet three times a year, keep themselves up-to-date with the law, organise continuing professional development, inform their colleagues of news about each of the facilities and oversee the ethical dimension of the division (CLINEA psychiatric charter). Such meetings are also held in post-acute and rehabilitation care facilities and in nursing homes. In each of our three business lines, the regional and national coordinators visit each of the Group's facilities on a regular basis in order to audit documentation, propose training for care workers, lead supervision meetings and conduct role plays;
- **the panel of long-term care physiotherapists:** the panel arranges meetings of psychomotor and occupational therapists to pool best practices, enhance physiotherapy programmes, and discover new therapeutic approaches.

These panels promote a sense of belonging and foster loyalty to the Group.

3.3.4 A RESPONSIBLE PURCHASING POLICY

ORPEA has a Group Purchasing Department and country-specific purchasing departments; as part of its purchasing policy, ORPEA is particularly concerned with social and environmental matters in its supplier relations.

In its national and international listing, the Group favours companies with an environment charter or which are developing environmentally friendly procedures or solutions.

The ORPEA Group also pays special attention to fair trade by working with suppliers and subcontractors that are sensitive to ethical and social rules.

All of these criteria are included in the Group's tender invitations and are thus taken into account when the Group selects its partners.

Because the ORPEA Group wants to involve its partners and suppliers in its environmental strategy, in 2017 it further strengthened its environmentally responsible purchasing policy through an ORPEA Environmental Responsibility Charter, which forms part of the environmental criteria in its tender invitations and thus ensures that listed products are environmentally responsible.

During 2019, an "e-purchasing" application will centralise all tender invitations, Group contracts, listed products and suppliers, orders and deliveries for all facilities in France and abroad. This centralised application will apply to the entire Group and will enable accurate, harmonised monitoring of the purchasing policy (through reporting tools) in all countries where the Group operates, in compliance with its social and environmental commitments.

Lastly, always keen to improve its practices for the benefit of residents and patients, the Group Purchasing Department regularly assesses its suppliers throughout the partnership, once a year on average and more often in the event of an incident. For example, in the event of damage caused by use of a product, the facility sends a report to head office and the supplier is then contacted to propose corrective action to be taken in liaison with the Group Purchasing Department.

RESPECTING THE ENVIRONMENT

ORPEA is committed to encouraging its suppliers, partners and subcontractors to work with companies that do as much as possible to protect the environment.

Managing maintenance products

ORPEA has replaced the various chemical products used with multi-purpose biodegradable cleaning products. Special attention has been paid to the level of toxicity of the products (volatile organic compounds, preservatives with bio-accumulative potential, phosphates, mercury, etc.). Priority is given to products with NFE certification or European eco labels. Clear instructions are circulated to avoid excessive amounts being used.

Paper and printing

Paper is one of the main consumables used in the Group, given its business activity. That is why ORPEA uses recycled or eco-labelled paper, or paper from responsibly managed forests.

Also, the Group has implemented a policy to reduce the use of paper by encouraging all team members to retrieve and use the reverse of printed pages, as scrap paper for example.

All internal correspondence is done by email only. External relations are done by post or fax only when absolutely necessary.

Electronic filing is also encouraged.

Printers that can print double-sided are favoured to save paper. Ink cartridges are chosen according to their longevity so that they do not have to be replaced as often. Therefore, printers are automatically set to print in black and white, rather than in colour.

3.3.5 FAIR TRADE PRACTICES

PREVENTING CORRUPTION AND FRAUD

ORPEA pays special care to prohibiting and preventing anti-competitive and unfair trade practices and corruption.

Strict internal audit and approval procedures are in place to avoid any risk of corruption in all of the Group's business lines. Each authorisation or acquisition project is subject to a systematic due diligence procedure: several teams visit the facility; operational, financial and social audits are performed; regulatory authorities and families are contacted in advance.

Depending on the type and cost of the project, it is then approved either by the Development Committee or by the Board of Directors.

The fight against fraud is of importance to all staff and memos are regularly sent out to alert staff of this risk.

To make the fight as effective as possible, no financial movements can be performed by any of the Group's facilities. Delegations of power and responsibility, in terms of commitment and payment, have been drafted to limit the number of people authorised to sign cheques or issue payment orders. As such, the persons authorised to commit payment are clearly identified, their number is strictly limited, and two signatories may be required depending on the amount to be committed.

These procedures are subject to stringent internal controls.

More recently, the Group used the introduction of the new Sapin 2 law as an opportunity to build a formal, structured approach to non-compliance risk management and to review the work already done by the Group.

A dedicated internal control department was created in 2017 and a Chief Compliance Officer appointed in the final quarter of 2017, reflecting Management's clear commitment to these issues and its aim of improving in these areas.

Work was done at the end of 2017 both on non-compliance risk mapping (fraud, corruption, conflicts of interest, etc.) and on drawing up a Code of Conduct, which is now finalised and will be circulated to all business unit staff during 2018.

RESPECTING THE RIGHTS OF PATIENTS AND RESIDENTS

ORPEA's social responsibility consists of providing a high quality of life and care for residents and patients who have chosen to live in one of the Group's facilities, in adherence with the basic principles of human rights, as well as the hospitalised persons' charter and the charter on elderly people living in care homes.

As such, in addition to their professional qualifications, ORPEA employees share the values the Group feels are essential to quality care, namely:

- kindness, the first pillar of good treatment, represented by listening, availability, respect and trust, which guides their daily actions;
- hospitality, friendliness and good humour, turning facilities into real spaces for living and exchanging, open to the outside and conducive to the development of social relationships.

In addition, support and care offered in the Group's facilities are designed to maintain autonomy for as long as possible. They are provided in compliance with the principles of comfort, dignity, individuality and freedom of choice at all stages of dependency, until the end of life.

As such, ORPEA staff are trained in end-of-life care, in terms of both managing pain and discomfort, and in terms of psychological support, not only for the resident/patient, but also for their relatives. Training involves the listening skills, kindness and availability that teams need in order to maintain the resident/patient's dignity so that they do not feel abandoned, while creating a secure atmosphere.

ORPEA staff engage with the resident/patient and always explain the care they are giving them, so that they can make an informed choice; they are always asked for consent when care is being provided, because they are the leading actor.

They have the right to refuse any treatment and can express their end-of-life wishes through guidelines provided beforehand.

The Group's facilities obviously adhere to legislation in force in the field, particularly in France the 1999 law that ensures the right to access palliative care and the Leonetti law of 2005, which stresses that suspending or no longer providing "curative" care does not mean "neglecting" or "abandoning" the patient, on the contrary.

As part of its desire to help foster a pragmatic culture of clinical ethics, ORPEA strengthened its thinking on the ethical dimension of care practices with the creation of its Scientific and Ethics Council, which provides expert advice on clinical ethics issues submitted to it by the Group's facilities and brings its perspective, experience and expertise in the quality and safety of care – not to mention quality of life – to bear for residents, patients and employees.

In order to support the development of ethical practices in all of the Group's facilities, the Council relies on a network of regional ethics advisers and good treatment advisers who have been present in every facility since 2011.

Lastly, a feeling of belonging, a person's culture, traditions and religious identity are strictly respected and staff have an impartial attitude.

HEALTH AND SAFETY OF RESIDENTS AND PATIENTS

ORPEA's main ambition is to provide care and support to those who have chosen to live in a Group facility, by ensuring their safety and well-being. The health and safety of residents and patients are at the heart of ORPEA's business, and are the priority of all its staff.

The traceability of actions and care, combined with medical and paramedical monitoring protocols and operating procedures, developed by the Medical Officer and Group Quality department, is designed to:

- secure support in all Group facilities (France and international), ensuring compliance with good clinical practice and all health and safety obligations;
- harmonise the organisation of work with specific supports to facilitate the internal control of the care provided in the Group's facilities.

Every quarter, in all Business Units, self-assessments are conducted by facility directors and their management team (including the coordinating doctor and nurse for the "care" aspect, as well as the chef for food service and maintenance staff for security); every six months, a control audit is performed by regional directors to monitor compliance with all Group procedures (care, food, administrative and hygiene procedures) and as such to ensure the health and safety of residents and patients.

Lastly, as described in the "Risk Management" section of the management report, ORPEA has identified all risks related to the health and safety of dependent people in its facilities, and for many years has used suitable tools (procedures, training, check lists and verifications) to prevent and manage these risks, primarily: the quality and temperature of water (prevention of the risk of legionella, control of potability of water and water temperature *via* mixers, etc.), and more generally the risks associated with building security, as well as climate, pandemic and mistreatment risk and risks relating to care and food.

DIALOGUE AND TRANSPARENCY WITH RESIDENTS, PATIENTS AND FAMILIES

Listening is one of ORPEA's founding values as a means of giving residents and patients personalised care, customised treatments and solutions adapted to their specific needs, which evolve throughout their stay.

That is why the main concern of facility directors is to maintain dialogue with and meet the expectations of families. Building a relationship of trust with patients/residents and their families is essential to quality care.

Within this framework, various actions have been developed across the Group to support attentive and benevolent listening:

- availability of the management team through the Group's centralised organisation, who also raise awareness among their staff to ensure that they are attentive to the needs and expectations expressed by everyone;
- special attention is paid to complaints made by patients/residents and their families, to the handling of those complaints, and to their follow-up;
- constructive dialogue in all facilities and all countries through:
  - committees (menus, entertainment, etc.) and residents' councils (known in France as "Council of Social Life"), which are composed of representatives of the management, residents and families to discuss various themes such as organisation and daily life within the institution, socio-cultural activities and therapeutic activities,

- user representatives in clinics from accredited healthcare associations, who sit on the Users Committee (CDU), and whose role is to ensure respect for the rights of users and to contribute to the improvement of the accommodation and care policy by reviewing complaints made by patients and user satisfaction indicators;

- independent satisfaction surveys, organised site by site, in all countries, in post-acute, rehabilitation and psychiatric clinics, nursing homes and Domidom, ADHAP and Spitex home care units alike. In clinics, these surveys are conducted when patients check out; in nursing homes, they are conducted annually, and the results and improvement plans drawn up within each facility are presented to residents and their families.

3.4 METHODOLOGY USED FOR DATA REPORTING

SCOPE OF CONSOLIDATION

Unless otherwise stated (see chapter below):

- employee data are consolidated for all fully consolidated entities regardless of their activity;
- the environmental scope covers 90.5% of open beds and does not include the Group's Spanish Sanyres facilities, which were taken over in 2017 (19 facilities and 2,769 beds). The environmental impact of the administrative head offices is not included in the scope of consolidation except for the Group's main headquarters in Puteaux (France);
- social data are consolidated for all of the Group's entities.

REPORTING GUIDELINES

In order to ensure the uniformity and reliability of the indicators used in all of its entities, the Group uses a common set of social, environmental and societal reporting guidelines.

These documents specify the methodologies to be followed for reporting the various indicators across the Group (definition, method of calculation and unit of calculation).

In order to ensure that the social and environmental indicators used in various countries are properly understood, the Corporate Human Resources and Maintenance/Safety departments are in charge of sending all required information to their country correspondents.

METHODOLOGICAL DETAILS AND LIMITATIONS

The methods relating to certain social and/or environmental indicators may have limitations due in large part to the absence of internationally accepted definitions of different types of employment contracts or the practical means by which information is collected and entered.

This is why, for certain indicators, the methodologies used or, failing that, the related margins of uncertainty are detailed whenever possible.

SOCIAL INDICATORS

Social reporting is done through dedicated tools for the Pay and Human Resources departments. Data collection is carried out mainly through payroll software in each country.

Data entries are made in each facility before being reported to the country head offices and then to the ORPEA Group Head Office. After collation by the Human Resources department, they are consolidated and treated in accordance with previously defined procedures and criteria:

- the workforce is calculated for all countries on the basis of the total workforce as of 31 December 2017;
- for all countries, permanent employees are those whose employment contracts have an undefined term (neither defined nor indefinite); the local definition of permanent contract is used, *i.e.* including for example the concept of work on demand contracts (Switzerland) and excluding the concept of undefined-term replacement contract (Belgium). A person with several permanent contracts in x facilities will appear x times. For calculation purposes, the number of contracts is used. For Austria, the applicable legislation and collective agreement do not distinguish between permanent and temporary contracts. Temporary contracts are rare. A specific exception is the "*Altersteizeit*" contract, which has a definite end date. However, as this type of contract is related to employee retirement, it is therefore still classified as a permanent contract. In Austria, interns are not included in headcount. In the Czech Republic, there is a specific form of hourly-paid mixed contract combining freelance work and employment, which the Group considers to be a permanent contract as there is no specified end date, but it is classified as a part-time contract as the concept of FTE is not relevant;
- for all countries, employees whose contractual working hours are equivalent to the legal duration applicable locally are considered full-time; the number of theoretical hours under

the contract is taken into account. The legal working hours obviously differ from one country to another and sometimes from one region or one function to another;
- the concept of manager (*cadre*) is specifically French.

JOINERS AND LEAVERS

For joiners:
- permanent contracts signed between 1 January and 31 December are taken into account;
- this method includes all new hires who sign a permanent contract during that period even though they may already have left during that period for whatever reason, such as end of trial period, resignation, dismissal, etc.;
- transfers from temporary to permanent contracts are not included in joiners for the following BUs: Celenus, SeneCura Austria, Senevita Switzerland. For other BUs, they are included;
- for Austria, transfers are not included due to the applicable legislation and collective agreement, and for part of Germany and Switzerland, due to non-distinction between permanent and fixed-term contracts.

For leavers:
- termination only applies to permanent contracts;
- it includes lay-offs for economic reasons as well as dismissals for other reasons, in both cases at the sole initiative of the employer;
- employees leaving on 31/12 of year Y included in headcount. They are not included in year Y leavers but in year Y+1.

COMPENSATION

The exchange rates used to calculate compensation in the different countries are those prevailing at 3 April 2018.

TRAINING

Hours or days training provided to employees during the reference year.

In France, this also includes "open" training hours provided after 31 December, when they involve:
- training leading to a recognised qualification;
- training that began during the current year.

For Germany, there is no centralised monitoring of training provided for Celenus.

For Austria, training hours in DDW could not be included as it was only consolidated during the year. The 2017 hours reported for Austria are therefore like-for-like data (SeneCura only).

Senevita includes training hours for employees on combined work/study contracts.

ABSENTEEISM

Number of hours or days absence (paid and unpaid) due to sickness (occupational or not) and workplace accidents:
- Belgium, China, Germany ORPEA Deutschland, Germany Celenus, Czech Republic, Switzerland (excluding Clinique de La Métairie): hours which should have been worked;
- Austria, Switzerland (Clinique de La Métairie): calendar days;
- Spain: number of calendar days. The "*accidente no laboral*" line item is included in this category. There are two definitions of workplace accident: a local legal definition and a Group CSR definition, and there may be a difference between the various reports;
- Poland: calendar days and "Rehabilitation Allowance" is taken into account.

WORKPLACE ACCIDENTS

Frequency and severity rates for 2016 are calculated for the international BUs on the following basis.

Frequency: number of workplace accidents (+ journey to and from work) leading to at least one day off work/ number of hours paid * 1,000,000

- A workplace accident is defined as any accident generating a case number (internal) or insurance claim (external) reported between 1 January and 31 December leading to at least one day off work.
- The number of hours is the number of hours paid across the entire scope from 1 January to 31 December.
- For ORPEA Germany, the number of hours paid does not include the number of additional/supplementary hours that are made up.

Severity: number of days lost/number of hours paid * 1,000

- The number of days lost is the number indicated on the accident report (in calendar days).

For BUs other than France, the number of days lost is the number indicated on the accident report (start date and end date, in calendar days). If the stoppage straddles two years, only those days lost in the relevant year are counted.

The local legal definition of days lost may differ from that used for Group CSR reporting purposes (*e.g.* Spain and Belgium) and there may therefore be differences in the number of days reported between this item and absenteeism. Furthermore, working time may vary from one region or function to another, and the number of full-time hours (and corresponding hours worked and paid) may vary accordingly.

In France, the formula used is still the same as in previous years, that is based on hours worked and not hours paid, except that for the first time this year, hours worked by managerial staff whose working time is based on a set number of working days per year have been included in the calculation.

Relapses following workplace accidents are taken into account, but they cannot be identified as such.

ENVIRONMENTAL INDICATORS

Environmental indicators are either calculated on an annual basis (for example CO_2 emissions) or reported monthly (for example water consumption).

As with social indicators, data entries are made in each facility before being reported to the country head offices and then consolidated by the ORPEA Group Head Office.

CO_2 EMISSIONS FROM ENERGY CONSUMPTION IN 2017

Annual energy consumption was calculated in kWh in all countries. The conversion factors used in calculations come from the ADEME.

- For electricity consumption, the following conversion factors were applied:
  - Switzerland: 0.0273 kg of CO_2 per kWh;
  - France: 0.0647 kg of CO_2 per kWh;
  - Belgium: 0.220 kg of CO_2 per kWh;
  - Spain: 0.238 kg of CO_2 per kWh;
  - Italy: 0.406 kg of CO_2 per kWh;
  - Germany: 0.461 kg of CO_2 per kWh;
  - China: 0.766 kg CO_2 per kWh;
  - Poland: 0.781 kg CO_2 per kWh;
  - Czech Republic: 0.589 kg CO_2 per kWh;
  - Austria: 0.188 kg of CO_2 per kWh.
- For heating, the following conversion factors were applied to all countries:
  - Fuel oil: 0.263 kg of CO_2 per kWh;
  - Natural gas: 0.202 kg of CO_2 per kWh;
  - Propane gas: 0.223 kg of CO_2 per kWh;
  - Wood: 0.033 kg of CO_2 per kWh;
  - District heating: the electricity conversion factor specific to each country was applied.

HEATING, ELECTRICITY AND WATER CONSUMPTION AND MANAGEMENT

The following sites were excluded from the reporting scope due a lack of data on water and/or energy consumption:

- **France:** Résidence Aquarelle, Clinique de la Rose des Sables, Résidence L'Ombrière, Résidence La Cigalière, Résidence Les Jardins de Charlotte, Clinique du Mont-Valérien, Résidence Les Jardins d'Aliénor, Résidence Les Fables, CRF Livry, Résidence Rognac, Résidence Clos Saint-Jacques, Résidence L'Oasis;
- **Belgium:** Villers-la-Ville, Deurne De Mannevinck, Knokke Heist, Ter Eycke;
- **Germany:** Seniorenhaus Josefa, Seniorenresidenz Kranenburg, Kirschblütenresidenz, Seniorenresidenz, Seniorheim Norddeich, Domizil MediCenter, Domizil am Deich, Pflegezentrum Emdem, Ötigheim, Neustadt, Ortenau, Trier, Villmar, Mainz, Oldendorf, Bremen, Bad Langensalza, Bad Bergenzaben;
- **Italy:** Belgirate;
- **Poland:** Kijowska Warszawa;
- **Czech Republic:** Pizek, Plzen, Sanov;
- **Switzerland:** Senevita Panorama;
- **Spain:** all Sanyres group facilities;
- **Austria:** SeneCura AIS Plegeheim St/Glan, SeneCura Sozialzentrum Lägenfeld, SeneCura Sozialzentrum Schwaz, SeneCura Parkresidenz Dornbirn, Kurhotel St Josef GmbH Bad Dürrnberg, Gesundheitsresort Raxblick GmbH Prein/Rax.

CLINICAL WASTE MANAGEMENT

In 2017, only data for the France and Belgium scope could be consolidated.

Tonnes of clinical waste are calculated on the basis of invoices received from the sole service provider that processes the waste (for 332 facilities). For the few facilities that use a different service provider (16 facilities or 4.6% of the total number of facilities in France that report clinical waste data), the number of tonnes has been estimated based on the average number of tonnes per facility type (nursing home, post-acute and rehabilitation care home, psychiatric care home).

CONSOLIDATION AND INTERNAL CONTROL

All data sent by the various countries are consolidated by the Corporate Human Resources and Maintenance/Safety departments.

Consistency checks are also carried out during consolidation and all figures are then checked by the Group Management Control department.

These controls include comparing data from the previous reporting period and differences deemed significant are analysed in detail.

EXTERNAL CONTROL

In accordance with the Grenelle II Decree of 24 April 2012 and the Decree of 13 May 2013 on audits of CSR data, ORPEA has designated one of its Statutory Auditors as an independent third party tasked with checking the presentation and fairness of the CSR information.

The work, comments and conclusions of the independent third party are set out in the certification of presentation and fairness appearing in Section 5.

3.5 REPORT OF ONE OF THE STATUTORY AUDITORS DESIGNATED AS AN INDEPENDENT THIRD PARTY ON THE CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT

This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Financial year ended 31 December 2017

To the Shareholders,

In our capacity as Statutory Auditors of ORPEA designated as an independent body, accredited by COFRAC under number 3-1048[1], we hereby report on the consolidated social, environmental and societal information for the year ended 31 December 2017, presented in the management report (hereinafter the "CSR Information"), pursuant to the provisions of Article L. 225-102-1 of the French Commercial Code.

RESPONSIBILITY OF THE COMPANY

It is the responsibility of the Board of Directors to prepare a management report including the CSR Information provided for in Article R. 225-105-1 of the French Commercial Code in accordance with the reporting guidelines used by the Company (hereinafter the "Guidelines"), a summary of which is contained in the management report and is available on request from the Company's headquarters.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by regulatory requirements, the Code of Ethics of our profession (*Code de déontologie*) and Article L. 822-11 of the French Commercial Code. In addition, we maintain a comprehensive system of quality control, including documented policies and procedures to ensure compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

RESPONSIBILITY OF THE STATUTORY AUDITORS

It is our responsibility, on the basis of our work:

- to certify that the required CSR Information is present in the management report or, if not, that an explanation is provided pursuant to the third paragraph of Article R. 225-105 of the French Commercial Code (Certification of presentation of the CSR Information);
- to provide limited assurance as to whether the CSR Information, taken together, is fairly presented, in all material respects, in accordance with the Framework (Reasoned opinion on the fairness of the CSR Information).

It is not our responsibility to express an opinion on compliance with any other legal provisions that may apply and, in particular, those provided for in Article L. 225-102-4 of the French Commercial Code (Duty of Care Plan) and in law no. 2016-1691 of 9 December 2016 (the so-called Sapin II law) on the prevention of corruption.

Our work was performed by four people and took place between March and April 2018 for a period of about six weeks. To assist us in conducting our work, we referred to the CSR experts of our firms.

We conducted our work as described below in accordance with the decree of 13 May 2013 on the conditions under which the independent body is required to perform its engagement and with the professional standards of the French national auditing institute (*Compagnie nationale des Commissaires aux comptes*) as regards such engagement, and in accordance with international standard ISAE 3000 as regards the reasoned opinion on the fairness of the CSR Information [2].

(1) The scope of which is available on the website www.cofrac.fr.
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

1. CERTIFICATION OF PRESENTATION OF THE CSR INFORMATION

Nature and scope of the work

We were given, in interviews with the managers of the departments concerned, a presentation of the guidelines as regards sustainable development in view of the social and environmental consequences of the activities of the Company and its societal commitments, as well as any ensuing actions or programmes where appropriate.

We compared the CSR Information presented in the management report with the list provided in Article R. 225-105-1 of the French Commercial Code.

In the event of omission of certain consolidated information, we verified that explanations were provided in accordance with paragraph 3 of Article R. 225-105 of the French Commercial Code.

We verified that the CSR Information covers the consolidated scope, namely the entity and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code and controlled entities within the meaning of Article L. 233-3 of the French Commercial Code, within the limits specified in the summary of the methodology used presented in section 4.4 of the management report.

Conclusion

Based on our work, and taking into account the limitations referred to above, we hereby certify that the required CSR Information is presented in the management report.

2. REASONED OPINION ON THE FAIRNESS OF THE CSR INFORMATION

Nature and scope of the work

We conducted about 10 interviews with the people responsible for the preparation of the CSR Information from the departments in charge of the process of collecting said information and, where appropriate, the people responsible for internal control and risk management procedures in order to:

- assess the appropriateness of the Framework with respect to its relevance, completeness, reliability, neutrality and clarity, taking into consideration, where relevant, industry best practice;
- verify the implementation of a procedure for collecting, compiling, processing and checking the CSR Information with regard to its completeness and consistency and to familiarise ourselves with the internal control and risk management procedures relating to the preparation of the CSR Information.

We determined the nature and extent of our tests and audits depending on the nature and importance of the CSR Information in relation to the characteristics of the Company, the social and environmental challenges faced by its business, its sustainable development guidelines and industry best practice.

As regards the CSR Information we considered most important (3):

- at the parent company and divisional level, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), implemented analytical procedures on the quantitative information, and verified calculations and data consolidation on a sample basis, verifying their consistency and uniformity with other information contained in the management report;
- at the level of the representative sample of entities selected by us (4) based on their activity, their contribution to the consolidated data, their location and a risk analysis, we conducted interviews to verify the correct application of procedures and identify potential omissions and implemented detailed tests on a sample basis, checking calculations and reconciling the data with the supporting documents. The sample selected in this way represented 15% of the workforce and between 16% and 22% of the environmental data presented.

We assessed the consistency of the other consolidated CSR Information published on the basis of our knowledge of the Company.

Lastly, we assessed the appropriateness of explanations, if any, for the total or partial absence of certain information.

We believe that our sampling methods and the size of the samples we selected using our professional judgement permit us to issue a finding of moderate assurance; a higher level of assurance would have required a more extensive review. Because of the use of sampling techniques and other limits inherent in any internal information and control system, the risk of not detecting a material misstatement in the CSR Information cannot be completely eliminated.

(3) **Quantitative information**: *Breakdown of workforce by country and type of employment contract, percentage breakdown of permanent and fixed-term contracts, percentage breakdown of men and women, percentage breakdown of full- and part-time employees, permanent contract recruitments, permanent contract dismissals, gross compensation paid to employees, number of days or hours absence, frequency of workplace accidents, severity of workplace accidents, number of hours training, water consumption, electricity consumption, heating consumption, CO_2 emissions from 2017 energy consumption, volumes of hazardous clinical waste.*
Qualitative information: *Measure for preventing musculo-skeletal disorders under the risk prevention and staff health protection policy, management of clinical waste, action to combat food waste, eco-design and eco-management of buildings, dialogue and transparency with residents, patients and families, health and safety of residents and patients.*

(4) **Belgium and Austria.**

Conclusion

Based on our work, we have not identified any material anomaly liable to call into question the fact that the CSR Information, taken together, is presented truthfully, in accordance with the Framework.

Neuilly-sur-Seine, 7 May 2018

One of the Statutory Auditors,

Deloitte & Associés

Jean-Marie Le Guiner

Partner

4.

Corporate governance report

"To the Shareholders,

Pursuant to Article L. 225-37 of the French Commercial Code, the Board of Directors presents the Annual General Meeting with a corporate governance report included with the management report.

This report contains the information provided for in Article L. 225-37-2 et seq. *of the French Commercial Code.*

The Company has also taken into consideration AMF recommendation No. 2012-02 on corporate governance and executive compensation at companies and refers to the AFEP-MEDEF Code in its amended version dated November 2016."

This report was approved by the Board of Directors at its meeting on 26 April 2018.

The AFEP-MEDEF Corporate governance code of listed corporations as revised in November 2016 (hereinafter referred to as the "**AFEP-MEDEF Code**") is the code to which ORPEA refers.

The Board of Directors and its Committees are governed by Internal Rules of Procedure (hereinafter the "**Internal Rules of Procedure**"), which were updated most recently on 13 December 2017, following the entry into force of the market abuse regulation and the European audit reform. These Internal Rules of Procedure can be viewed at the Company's website (www.orpea-corp.com).

ORPEA believes that its practices comply with the AFEP-MEDEF Code's recommendations, except where the contrary is expressly stated in the table in Appendix 1 to this report in line with the "Comply or Explain" rule provided for in Article L. 225-37-4 of the French Commercial Code and recommendation 27.1 of the AFEP-MEDEF Code. The table presents the reasons why said recommendations were set aside.

4.1 COMPOSITION AND OPERATING PROCEDURES OF THE BOARD OF DIRECTORS

Article 15 of ORPEA's Articles of Association lays down and sets out the composition and operating procedures of the Board of Directors.

The following tables show the principal key indicators applicable to the Board of Directors and the individual attendance rates for directors at Board meetings.

Principal key indicators	FY 2017	FY 2016
Number of meetings of the Board of Directors	9	8
Attendance rate at Board of Directors' meetings*	91.35%	94.93%
Number of directors*	11	12
Proportion of independent directors**	90.00%	72.72%
Percentage of directors who are women***	40.00%	36.36%
Number of nationalities	4	4

* *The director representing employees was included in the calculations.*
** *This percentage was calculated using the composition of the Board of Directors at 31 December of the relevant year and in accordance with recommendation 8.3 of the AFEP-MEDEF Code, without including the director representing employees.*
*** *This percentage was calculated using the composition at 31 December of the relevant year and pursuant to the provisions of the law of 27 January 2011 on gender balance, without including the director representing employees.*

Directors' individual attendance rates	FY 2017	FY 2016
Philippe Charrier[1]	100%	N/A
Jean-Claude Marian[2]	100%	87.50%
Yves Le Masne	100%	100%
Laure Baume	66.67%[3]	100%
Xavier Coirbay[4]	100%	N/A
Bernadette Danet-Chevallier	100%	100%
FFP Invest (represented by Thierry de Poncheville)	100%	100%
Jean-Patrick Fortlacroix	88.89%	100%
Christian Hensley	100%	100%
Brigitte Lantz	100%	100%
Joy Verlé[5]	100%	N/A
Alain Carrier[6]	50%[7]	62.50%
Sophie Malarme-Lecloux[8]	100%	100%
Alexandre Malbasa[8]	100%	100%
Sophie Kalaidjian	66.67%[9]	100%

(1) Director and Chairman of the Board of Directors since 28 March 2017.
(2) Director and Chairman of the Board of Directors until 28 March 2017.
(3) Laure Baume attended six out of nine meetings, having made commitments to be elsewhere prior to her appointment on 14 December 2016 and the determination of the schedule of meetings.
(4) Director since 22 June 2017.
(5) Director since 27 April 2017.
(6) Director until 27 April 2017.
(7) Alain Carrier attended two out of four meetings, owing to business commitments abroad.
(8) Director until 22 June 2017.
(9) Sophie Kalaidjian attended six meetings out of nine owing to maternity leave.

4.1.1 COMPOSITION OF THE BOARD OF DIRECTORS

INFORMATION ABOUT DIRECTORS' IDENTITY AND THEIR TERMS OF OFFICE

The Company's Articles of Association provide that the Board of Directors should have at least three and no more than 18 members, subject to the exceptions provided for in law. The directors may be individuals or legal entities.

The directors are appointed by the Ordinary General Meeting based on a proposal submitted by the Board of Directors after consulting the opinion of the Appointments and Compensation Committee. They may be removed from office at any time by a vote of the General Meeting of the Shareholders.

Pursuant to the AFEP-MEDEF Code, directors serve for a term of four years, after which they may be reappointed (except for the director representing employees, who has a term in office of three years). To prevent all the terms in office from expiring at the same time, directors' appointments are staggered. This helps to ensure that the reappointment of directors is a smooth process.

An employee representative attends Board meetings in an advisory capacity.

At 31 December 2017, the Board of Directors had 11 members, including one director representing employees. No changes occurred between that date and the date of publication of this report.

The following table presents the names of the directors in office at the date of this report, together with information about their term in office as a director of ORPEA.

Name	Office	Date of appointment/ co-option	End date of term in office	Length of service on the Board of Directors
Philippe Charrier	Director (and Chairman of the Board of Directors)	28 March 2017	2019 AGM*	28 March 2017
Yves Le Masne	Director (and Chief Executive Officer)	23 June 2015	2019 AGM*	29 June 2006
Laure Baume	Director	14 December 2016	2020 AGM*	14 December 2016
Xavier Coirbay	Director	22 June 2017	2021 AGM*	22 June 2017
Bernadette Danet-Chevallier	Director	22 June 2017	2021 AGM*	16 September 2014
FFP Invest (represented by Thierry de Poncheville)	Director	23 June 2015	2019 AGM*	15 February 2012
Jean-Patrick Fortlacroix	Director	25 June 2014	2018 AGM*	30 June 2011
Christian Hensley	Director	23 June 2016	2020 AGM*	23 June 2016
Joy Verlé	Director	27 April 2017	2019 AGM*	27 April 2017
Brigitte Lantz	Director	14 December 2016	2020 AGM*	14 December 2016
Sophie Kalaidjian	Director representing the employees	15 January 2015	2018 AGM*	15 January 2015

* *AGM called to approve the financial statements for the previous financial year.*

The diverse experience and complementary skills and knowledge of the directors, the gender balance and the representation of several different nationalities on the Board of Directors enrich its discussions and its strategic vision.

Biographical details of the Board of Directors' members, including their age, nationality, career, terms in office and offices they hold outside the Company, together with the number of shares they own, are presented in Appendix 2 of this report.

Changes in the composition of the Board of Directors during the financial year

At its meeting on 28 March 2017, after Jean-Claude Marian resigned as a director and as Chairman of the Board of Directors with immediate effect following that meeting, the Board of Directors co-opted Philippe Charrier to replace him as a director for the remainder of Jean-Claude Marian's term in office and appointed him as Chairman of the Board of Directors until the end of his term in office. Shareholders ratified this decision at the Annual General Meeting on 22 June 2017.

At its meeting on 27 April 2017, after Alain Carrier resigned as a director with immediate effect following that meeting, the Board of Directors co-opted Joy Verlé to replace him as a director for the remainder of Alain Carrier's term in office. Shareholders ratified this decision at the Annual General Meeting on 22 June 2017.

Sophie Malarme-Lecloux and Alexandre Malbasa, whose terms in office expired at the close of the 22 June 2017 Annual General Meeting, did not seek reappointment. At that same Annual General Meeting, shareholders appointed Xavier Coirbay as a director for a term in office of four years ending at the close of the Annual General Meeting to be held to approve the 2020 financial statements. Alexandra Malbasa was not replaced.

At the Annual General Meeting on 22 June 2017, shareholders appointed Bernadette Danet-Chevallier as a director for a term in office of four years ending at the close of the Annual General Meeting to be held to approve the 2020 financial statements.

Reappointment of members of the Board of Directors

The reappointment of the members of the Board of Directors is staggered as follows:

Terms in office expiring at the close of the Annual General Meeting called to approve the 2017 financial statements	Terms in office expiring at the close of the Annual General Meeting to be held to approve the 2018 financial statements	Terms in office expiring at the close of the Annual General Meeting to be held to approve the 2019 financial statements	Terms in office expiring at the close of the Annual General Meeting to be held to approve the 2020 financial statements
Jean-Patrick Fortlacroix	Philippe Charrier	Laure Baume	Xavier Coirbay
Sophie Kalaidjian (representing employees)	Yves Le Masne	Christian Hensley	Bernadette Danet-Chevallier
	FFP Invest (represented by Thierry de Poncheville)	Brigitte Lantz	
	Joy Verlé		

Shareholders will be asked at the Annual General Meeting on 28 June 2018 to reappoint Jean-Patrick Fortlacroix as a director for a term in office of four years ending at the close of the Annual General Meeting to be held to approve the 2021 financial statements. In addition to his impressive attendance record and knowledge of the Company, Jean-Patrick Fortlacroix, an independent director, possesses significant financial and accounting skills that are of benefit to the Board.

Pursuant to law No. 2013-504 of 14 June 2013 on job security, the Works Committee of the ORPEA economic and social unit decided at its meeting on 27 March 2018 to reappoint Sophie Kalaidjian as the director representing employees for a term in office as a director of three years ending at the close of the Annual General Meeting to be held to approve the 2020 financial statements.

INDEPENDENCE OF DIRECTORS

The Company believes that having independent directors on its Board of Directors improves the quality and objectivity of discussions. It considers that a director is independent if they have no relationship of any kind whatsoever with the Company, its Group or its management liable to compromise their independence of judgement.

Pursuant to the AFEP-MEDEF Code's recommendations, the Board of Directors reviews every year, following on from discussions held by the Appointments and Compensation Committee, whether each of its members qualifies as independent. It also reviews the status of any new directors following their appointment. In this review, it applies the criteria for independence laid down in the AFEP-MEDEF Code:

- not to be and not to have been during the course of the previous five years an employee or executive officer of the Company, an employee, executive officer or non-executive director of a company that the Company consolidates, or an employee, executive officer or non-executive director of the Company's parent company or of a company consolidated by the parent company;
- not to be an executive officer of a company in which the Company holds a directorship, directly or indirectly, or in which an employee appointed as such or an executive officer of the Company (currently in office or having held such office during the last five years) is a director;
- not to be a customer, supplier, commercial banker or investment banker of that is material to the Company or its Group or for a significant part of whose business the Company or its Group accounts;
- not to be related by close family ties to a corporate officer;
- not to have been a Statutory Auditor of the Company within the previous five years;
- not to have been a director of the Company for more than 12 years.

Where a director holds 10% or more of the Company's share capital or voting rights, the Board of Directors issues an opinion on the director's independence taking into account ownership of the Company's share capital and whether any conflicts of interest exist.

On 26 April 2018, the Board of Directors found on the basis of a report by the Appointments and Compensation Committee that the following directors are independent according to the criteria presented above: Philippe Charrier, Laure Baume, Xavier Coirbay, Bernadette Danet-Chevallier, FFP Invest (represented by Thierry de Poncheville), Jean-Patrick Fortlacroix, Christian Hensley, Brigitte Lantz and Joy Verlé, which puts the proportion of independent directors at 90%. Pursuant to recommendation No. 8.7 of the AFEP-MEDEF Code, the Board paid particular attention to the status of Christian Hensley and Joy Verlé, directors whose appointment was proposed by CPPIB, ORPEA's largest shareholder with 14.24% of its share capital and 21.64% of its voting rights at 31 December 2017. The Board came to the opinion that these directors qualify as independent in the light of (i) the criteria for independence stated above, which all of them meet, (ii) ORPEA's ownership structure, (iii) the absence of any potential conflicts of interest between these directors and ORPEA, and (iv) the non-material nature of the ORPEA shareholding in the portfolio of assets managed by CPPIB.

The recommendation of the AFEP-MEDEF Code that independent directors should account for at least half the Board in non-controlled companies is thus satisfied.

GENDER BALANCE

At 31 December 2017 and at the publication date of this report, four of the ten members of the Board of Directors (excluding the director representing employees) were women, namely Laure Baume, Bernadette Danet-Chevallier, Brigitte Lantz and Joy Verlé.

The composition of the Board of Directors, with women accounting for 40% of its members, thus complies with the provisions of the law of 27 January 2011 on gender balance.

EMPLOYEE REPRESENTATION

In accordance with the French law of 14 June 2013 on job security and Article 15-1 of the ORPEA's Articles of Association, a director representing the employees has served on the Board of Directors since 15 January 2015, following Sophie Kalaidjian's appointment on 25 November 2014 by the Works Committee of the ORPEA economic and social unit. Since the director representing employees has a term in office of three years, her duties will end at the close of the Annual General Meeting due to be held on 28 June 2018.

Pursuant to said law, the Works Committee of the ORPEA economic and social unit decided at its meeting on 27 March 2018 to reappoint Sophie Kalaidjian as the director representing employees for a term in office as a director of three years ending at the close of the Annual General Meeting to be held to approve the 2020 financial statements.

The director representing employees is invited to attend meetings of the Appointments and Compensation Committee concerning remuneration.

An employee representative attends Board meetings in an advisory capacity.

CONFLICTS OF INTEREST AND STATEMENTS CONCERNING CORPORATE OFFICERS

Nature of any family relationship between the corporate officers

To the best of the Company's knowledge, there are no family relationships between the Company's directors.

Conflicts of interest

As far as the Company is aware, there are no potential or actual conflicts of interest between the duties of the corporate officers vis-à-vis the ORPEA Group and their own private interests. The Chairman of the Board of Directors, the Chief Executive Officer and the Chief Operating Officer do not have any other business activities or hold any other office outside the Group liable to give rise to a business relationship with the Group. There are no agreements or other arrangements between the directors and the Group. No payments were made by the Group to the directors or vice versa. The Board's organisation and operating procedures, including the procedure for related party agreements, should prevent any such conflicts of interest.

In addition, under the Board's Internal Rules of Procedure, directors are obliged to disclose to the Board of Directors any conflict of interest, or even a potential conflict of interest, directly or indirectly affecting them. In such circumstances, they must then refrain from taking part in the relevant discussions and must not vote.

Corporate officers' convictions and criminal liability

As far as the Company is aware, none of the corporate officers have, in the past five years, been convicted of fraud, incriminated by and/or received any official public sanction from the statutory or regulatory authorities (including designated professional bodies) or been issued with any court order barring them from office as a director, senior manager or Supervisory Board member or from involvement in the management or conduct of a listed company's affairs.

Service agreements

No service agreements have been entered into between Board members and the Company or any of its subsidiaries providing for the grant of benefits under such agreements.

4.1.2 OPERATING PROCEDURES OF THE BOARD OF DIRECTORS

OPERATING PROCEDURES AND MAIN WORK UNDERTAKEN BY THE BOARD OF DIRECTORS

The operating procedures of the Board of Directors are governed by statutory and regulatory requirements, as well as by the Articles of Association and the Board's Internal Rules of Procedure.

The Internal Rules of Procedure are intended to supplement the rules laid down in law, the regulations and the Articles of Association so as to clarify how the Board and its Committees should operate in the interests of the Company and its shareholders. The Internal Rules of Procedure contain the rules on confidentiality and the disclosure of conflicts of interest. They also cover trading in the Company's shares and the associated declaration and notification requirements.

The Internal Rules of Procedure were updated most recently on 13 December 2017 following the entry into force of the market abuse regulation and the European audit reform. The Internal Rules can be downloaded from the Company's website (**www.orpea-corp.com**).

Arrangements for meetings of the Board of Directors

The Board of Directors meets whenever ORPEA's interests so require. Meetings may be called by any means (letter, fax, email and even orally) by the Chairman of the Board of Directors.

Notices of meeting may be issued by the Board's Secretary. Barring special circumstances, notice of a meeting is given in writing at least one week in advance. It should be accompanied by the agenda and the minutes of the previous meeting. It should state the place of the meeting, which may be the Company's registered office or any other location.

In special circumstances, the Chairman may solicit the Board's opinion on a particular matter by calling a meeting with 24 hours' notice.

The Board draws up a schedule of its meetings for the coming year at the end of the previous year.

The *quorum* requirement for the Board of Directors to transact business validly is met when at least half the Board members are present. A director may represent another director if granted special powers so to do.

Directors may participate in meetings by means of videoconferencing or telecommunications technology where they can be identified and their effective participation in the meeting is guaranteed, subject to the requirements of the regulations in force. Even so, directors may not attend meetings remotely using technology when the Board of Directors is considering approval of either the Company's annual and consolidated financial statements, the corporate governance report or the management report.

The Board's decisions are made by a majority vote of those directors present or represented, except for the decision on whether to separate or combine the roles of Chairman and of Chief Executive Officer, for which a two-thirds majority vote by directors is required.

The Chairman has a casting vote.

The proceedings of the meeting and the decisions made are recorded in minutes.

Role of the Board of Directors

Under the statutory framework, the Board of Directors is responsible for:

- making decisions concerning the Group's major strategic, business, employee-related and financial priorities and ensuring these are implemented by executive management;
- considering investment opportunities, including acquisitions and disposals, which may have a material impact on the results of the Group's operations, balance sheet structure and risk profile;
- approving the annual and interim financial statements and making preparations for the Annual General Meeting of the shareholders;
- determining the remuneration policy for senior executives and corporate officers upon the recommendation of the Appointments and Compensation Committee;
- reviewing the individual status of the directors every year prior to publication of the annual report and then disclosing to shareholders the results of its analysis of the independence of each of the Company's directors;
- approving the Group's management report;
- preparing and approving the Board of Directors' report on corporate governance.

Pursuant to the Internal Rules of Procedure, the Chief Executive Officer must seek the prior authorisation of the Board of Directors before carrying out certain transactions (see section 4.2.2 below).

The members of the Board of Directors are kept informed of developments concerning the Group's markets, competitive environment and key priorities, including the Company's corporate social responsibility.

Role and powers of the Chairman

The Chairman of the Board of Directors represents the Board of Directors. He organises and leads the Board's work and reports to the shareholders thereon at General Meetings. He is responsible for the smooth running of the Company's governing bodies and in particular for making sure that directors are able to perform their duties.

In addition to his statutory duties, the Chairman's remit is as follows:

- he is consulted by and meets with the Chief Executive Officer concerning certain events and projects of significant and/or strategic importance to the Group;
- he attends certain internal meetings with the Company's senior managers and teams, as well as every meeting of the Board Committees;
- he seeks to maintain the equilibrium and effectiveness of the Board.

During 2017, the year of his appointment to the office, Philippe Charrier visited several Group facilities in and outside France, and met with management and operational teams (up to facility manager level) to broaden his knowledge of the Group. In addition, he met with the Chief Executive Officer on average twice a month. The topics they discussed included the Group's ESG (Environment, Social, Governance) and digitisation strategy, its search for key managers, its development in countries where ORPEA already has a presence and its prospecting activities in new territories. He also introduced regular dialogue with the other directors. Lastly, he attended all the meetings of the Board Committees following ratification of his co-option by shareholders at the Annual General Meeting on 22 June 2017.

Board's activities in 2017

A provisional schedule of Board meetings for the coming year is drawn up in consultation with the directors at the end of the previous year.

Based on this schedule, the agenda for meetings is emailed to directors during the week preceding the meeting. Any papers for review by the directors prior to the meeting are enclosed with the agenda, wherever possible.

The minutes of each meeting are expressly approved at the following Board of Directors' meeting.

The Board of Directors met nine times during FY 2017 (eight times during the previous financial year). Directors' attendance rate stood at 91.35% (*vs.* 94.93% in the previous financial year). Directors' individual attendance rates at the various meetings of the Board of Directors are stated at the beginning of section 4.1 of this report.

During these meeting, the Board of Directors discussed the following topics.

Group's business and financial strategy

During FY 2017, the Board continued its in-depth review of the Group's strategy and in particular of its international expansion and its funding arrangements.

In line with the strategy it has approved, the Board of Directors authorised various deals and transactions during FY 2017, including:

- various acquisition opportunities, including Anavita, an operator of nursing homes in the Czech Republic, and Dr. Dr. Wagner, an operator of nursing homes and post-acute and rehabilitation hospitals in Austria;

- the partnership with the SIS Group to establish and build up a presence in Brazil and Portugal;
- the issue of conventional bonds and a *Schuldschein* note;
- early redemption of all the ORNANE bonds (bonds convertible into new shares and/or exchangeable for existing shares), which were issued on 17 July 2013.

In addition, the Board of Directors approved the FY 2017 budget and analysed the Group's performance in the previous year.

Approval of the parent-company and consolidated financial statements

The Board of Directors reviewed and approved the parent-company and consolidated financial statements for the year ended 31 December 2016, the consolidated interim financial statements at 30 June 2017 and the related management reports. The Board of Directors also reviewed the draft press releases and earnings presentations for the investor community prior to their publication and considered the Group's financial position, including trends in its cash and debt.

The Statutory Auditors attended the meetings of the Board of Directors at which the annual and interim financial statements were approved.

Governance

The Board of Directors was involved in selecting new directors, co-opting Philippe Charrier as a director, appointing him as Chairman of the Board of Directors and determining his remuneration. It also reappointed Yves Le Masne as Chief Executive Officer and Jean-Claude Brdenk as Chief Operating Officer ahead of the expiry dates of their previous terms in office.

Based on a proposal from the Appointments and Compensation Committee, the Board of Directors also determined:

- the proposed bonuses to be paid in respect of FY 2016 to Yves Le Masne and Jean-Claude Brdenk based on the targets set for them for the financial year, by applying the calculation method set previously by the Board of Directors;
- the remuneration policy for the executive officers for FY 2017;
- directors' independence.

Other matters

For reference purposes, the Board of Directors also:

- reviewed the semi-annual quality reviews;
- approved a bonus share allotment plan for Yves Le Masne and Jean-Claude Brdenk, in line with the executive remuneration policy for FY 2017, and another plan for certain senior managers;
- approved the resolutions and documents required by law for the Annual General Meeting of the shareholders;
- extended the delegation of powers to the Chief Executive Officer to grant guarantees, security deposits and endorsements on behalf of the Company;
- examined the information provided to it by the Audit Committee about the internal control and risk management systems.

The Board Committees presented their work to the Board of Directors in the form of reports by their respective Chairman, which were then discussed by the Board as a whole.

MEETINGS OF THE BOARD OF DIRECTORS NOT ATTENDED BY EXECUTIVE OFFICERS

Twice a year the Board of Directors holds an executive session during which the directors discuss the performance of the executive officers. In addition, the Audit Committee and the Appointments and Compensation Committee meet on a regular basis with no executive officers in attendance.

Informal dialogue takes place continually between the directors without the executive officers being involved. The Chief Executive Officer is not present during discussions concerning him.

BOARD EVALUATION

Pursuant to the recommendations of the AFEP-MEDEF Code, the Internal Rules of Procedure of ORPEA's Board of Directors state that the Board should conduct an evaluation from time to time of its and of its Committees' composition, organisation and effectiveness.

Every year, the directors complete a self-assessment questionnaire, and the responses to the questionnaires are analysed and summarised in a presentation of the key areas for improvement on which the Board works in the following year.

Aside from this annual self-assessment, a formal evaluation process takes place at regular intervals. In early 2018, an internationally renowned independent firm conducted an evaluation of the Board of Directors. The directors were sent a questionnaire in preparation for individual meetings that were held with two consultants from the firm. The conclusions of the evaluation, in which directors' overall assessment was positive, were presented to the Appointments and Compensation Committee and to the Board of Directors.

The Appointments and Compensation Committee will follow up on the areas for improvement identified during the process, and the next Board evaluation will be held in early 2019.

DELEGATIONS OF POWERS CURRENTLY VALID AND DELEGATIONS OF POWERS USED

The table below summarises the currently valid delegations of powers granted by the General Meetings of 23 June 2016 and 22 June 2017, and the use made thereof during FY 2017.

Type of authority/Maximum aggregate nominal amount	Period of validity	Use during the year
1) COMBINED GENERAL MEETING OF 23 JUNE 2016		
15th resolution – Issues of shares and/or negotiable securities conferring rights to the share capital and/or negotiable securities carrying rights to the allotment of debt securities **with pre-emption rights:** ■ *total nominal amount of capital increases:* ***€30,000,000;*** ■ *maximum nominal amount of debt securities:* ***€750,000,000.***	26 months	None
16th resolution – Issue of shares and/or negotiable securities conferring rights to the share capital and/or negotiable securities carrying rights to the allotment of debt securities **without pre-emption rights, through a public offering:** ■ *total nominal amount of capital increases:* ***€7,534,000;*** ■ *maximum nominal amount of debt securities:* ***€750,000,000.***	26 months	None
17th resolution – Issue of the Company's shares and/or negotiable securities conferring rights to the share capital and/or negotiable securities carrying rights to the allotment of debt securities **without pre-emption rights, through private placements** as stated in section II of Article L. 411-2 of the French Monetary and Financial Code: ■ *total nominal amount of capital increases:* ***€7,534,000;*** ■ *maximum nominal amount of debt securities:* ***€500,000,000.***	26 months	None
18th resolution – Issue of negotiable securities pursuant to the 16th and 17th resolutions **without pre-emption rights** with the issue price to be set as determined by the General Meeting, without exceeding a cap of 10% of the share capital per year.	26 months	None
19th resolution – Increase in the share capital **in consideration for contributions in kind** made to the Company in the form of equity or other negotiable securities, **without pre-emption rights:** ■ *up to a cap of 10% of the share capital;* ■ *maximum nominal amount of debt securities:* ***€500,000,000.***	26 months	None
20th resolution – Issue of negotiable securities conferring rights to the share capital **in the event of a public exchange offer launched by the Company, without pre-emption rights:** ■ *nominal amount of the capital increase:* ***€30,000,000.***	26 months	None
21st resolution – Increase in the number of shares to be issued in the event of an issue **with or without pre-emption rights for shareholders** (overallotment option): ■ *up to the cap of 15% of the initial size of the issue;* ■ *amount counting against each of the issues made pursuant to the 15th to 18th resolutions.*	26 months	None
22nd resolution – Issue of equity securities reserved for members of an employee share ownership plan **without pre-emption rights for shareholders:** ■ *maximum nominal amount:* ***€400,000.***	26 months	None
23rd resolution – Bonus allotment of existing or new shares to corporate officers and/or employees **without pre-emption rights:** ■ *total number of shares that may be allotted: 0.5% of the Company's share capital on the day of the Board's decision;* ■ *total number of shares that may be allotted to corporate officers: 0.2% of the Company's share capital on the day of the Board's decision (sub-cap).*	26 months	82,250 shares
24th resolution – Award of stock options to corporate officers and/or employees, **without pre-emption rights where the shares are subscribed for:** ■ *total number of shares that may be subscribed for or purchased:* ***460,000 shares.***	26 months	None
25th resolution – Overall cap on capital increases pursuant to the 15th to 22nd resolutions: ■ *maximum nominal amount:* ***€30,000,000;*** ■ *maximum nominal amount of debt securities:* ***€1,000,000,000.***	26 months	None
26th resolution - Capital increase through the capitalisation of premiums, reserves, earnings or other (Articles L. 225-129, L. 225-129-2 and L. 225-130 of the French Commercial Code): ■ *maximum nominal amount:* ***€30,000,000.***	26 months	None
27th resolution - Issue of negotiable securities carrying rights to the allotment of debt securities and not giving rise to a capital increase: ■ *maximum nominal amount:* ***€500,000,000.***	26 months	None
2) COMBINED GENERAL MEETING OF 22 JUNE 2017		
16th resolution – Share buyback programme: ■ *up to a cap of 10% of the share capital;* ■ *maximum purchase price of ≤€150 per share.*	18 months	None
17th resolution – Reduction in capital through the cancellation of shares: ■ *up to a cap of 10% of the share capital.*	18 months	None

The full text of the resolutions approved by those meetings can be found on the website of the French Legal Announcements Bulletin (*Bulletin des annonces légales obligatoires* – BALO) as well as on the Company's website (www.orpea-corp.com, Shareholders/Shareholder meeting section).

It is essential for the Board of Directors to have shareholder authorisations in place enabling it to raise the financial resources it needs in a rapid and flexible manner to further ORPEA's development via various types of issues in accordance with the regulations in force. Shareholders' approval for the renewal of all the aforementioned powers to raise finance will be requested at the Annual General Meeting due to be held on 28 June 2018.

DIRECTORS' INDUCTION

An induction programme including visits to facilities and a presentation of the Group is arranged for every new director.

4.1.3 OPERATING PROCEDURES AND MAIN WORK UNDERTAKEN BY THE BOARD COMMITTEES

The Board of Directors has established two Committees, namely the Audit Committee and the Appointments and Compensation Committee, and has given each specific terms of reference to prepare for and enrich its work.

These Board Committees act strictly within the terms of reference given to them by the Board of Directors and pursuant to law. Their precise scope is laid down in the Internal Rules of Procedure. They prepare for its discussions, make proposals and recommendations, but have no decision-making powers.

The members of these Board Committees, their terms of reference and their activities during 2017 are stated below.

AUDIT COMMITTEE

The following tables show the principal key indicators applicable to the Audit Committee and the individual attendance rates for directors at its meetings.

Principal key indicators	FY 2017	FY 2016
Number of meetings of the Audit Committee	4	4
Attendance rate at Audit Committee meetings	85.71%	94.12%
Number of Audit Committee members*	4	4
Proportion of independent directors*	100%	75%

* *Composition of the Audit Committee at 31 December of the relevant year.*

Directors' individual attendance rates	FY 2017	FY 2016
Jean-Patrick Fortlacroix	100%	100%
Laure Baume(1)	100%	N/A
FFP Invest (represented by Thierry de Poncheville)	75%	100%
Joy Verlé(2)	100%	N/A
Alain Carrier(3)	50%(4)	75%
Alexandre Malbasa(5)	100%	100%

(1) Member of the Audit Committee since 26 September 2017.
(2) Director since 27 April 2017 and member of the Audit Committee since 26 September 2017.
(3) Director and member of the Audit Committee until 27 April 2017.
(4) Alain Carrier attended one out of two meetings, owing to business commitments abroad.
(5) Director and member of the Audit Committee until 22 June 2017.

Audit Committee members

At 31 December 2017, the Audit Committee had the following four members: Jean-Patrick Fortlacroix (Chairman of the Audit Committee), Laure Baume, FFP Invest (represented by Thierry de Poncheville) and Joy Verlé. No changes had occurred by the date of publication of this report. Philippe Charrier, Chairman of the Board of Directors, attends its meetings on an advisory basis.

Only independent directors are members of the Audit Committee, and most of them were selected based on their specific financial, accounting and/or legal expertise, as a result of their training or professional experience, as reflected in their biographical details included in Appendix 2 to this report.

The Audit Committee's composition complies with the AFEP-MEDEF Code recommendations that (i) at least two-thirds of the Audit Committee's members should be independent directors, and that (ii) no executive officers should serve on the Audit Committee.

The length of the appointment of Audit Committee members is exactly the same as their term in office as a director.

Audit Committee's terms of reference

The Audit Committee deals with issues arising from the preparation and control of accounting and financial information. Its role is to make the requisite preparations for decisions by the Board of Directors in financial and accounting matters.

Without prejudice to the powers of the Board of Directors and executive management, the Committee is responsible for:

a) monitoring the process by which financial information is prepared;

b) examining the risks, levels of risk and procedures for guarding against them and also material off-balance sheet commitments;

c) verifying the effectiveness of internal control, internal audit and risk management systems, and of the statutory audit of the annual and consolidated financial statements by the Statutory Auditors, and, considering any observations made by the H3C (High Council for Statutory Audit);

d) ensuring the rules on the rotation of audit firms and principal partners who sign audit reports are implemented in accordance with the law, including by piloting the selection procedure for the Company's Statutory Auditors and by submitting the results of the selection process to the Board of Directors.

The Audit Committee draws on the report by the AMF working group on Audit Committees published on 22 July 2010 to guide its work.

Following the entry into force on 17 June 2016 of the European audit reform, ORPEA's Statutory Auditors may provide to the Group only those Non-Audit Services (the "**Non-Audit Services**") that do not appear on the list of prohibited Non-Audit Services (Article 5 of Regulation (EU) No. 537/2014 and Article 10 of the Code of Ethics) (the "**Permitted Non-Audit Services**"). The provision of Permitted Non-Audit Services by the Group's Statutory Auditors requires the prior authorisation of the Audit Committee following an analysis of the threat to their independence and the safeguards applied to mitigate those threats. At its 6 December 2017 meeting, the Audit Committee introduced a procedure for the approval of Permitted Non-Audit Services that varies according to their nature (those required by law and the regulations, those customarily provided by the Statutory Auditors and those not affecting their independence, the other Permitted Non-Audit Services).

The Audit Committee reports on its work to the Board of Directors, states any pertinent opinions and suggestions and brings to its attention any points requiring the Board to make a decision.

As part of its monitoring of the effectiveness of internal control, it is informed of the results of the Statutory Auditors' investigations of internal control and of those undertaken by the department in charge of internal control, internal audit and risk management.

Audit Committee's operating procedures

The Audit Committee is convened by its Chairman whenever he or the Board deems necessary, and at least three times a year.

The agenda for meetings is set by the Audit Committee's Chairman in conjunction with the Board, where the Board has called the meeting. The agenda is sent to Committee members prior to the meeting together with all the papers they require for their discussions.

To carry out its duties effectively, the Audit Committee may, should it deem necessary, ask the Statutory Auditors or Company's managers responsible for preparing the financial statements and for internal control to appear before it, alone or together with representatives of the Company.

Audit Committee's activities in 2017

The Audit Committee met four times during FY 2017 (four times during the previous financial year).

During these meetings, the Audit Committee:

- reviewed the annual and consolidated financial statements at 31 December 2016 and the consolidated interim financial statements at 30 June 2017;
- apprised itself of the work performed by the Statutory Auditors concerning the annual and consolidated financial statements at 31 December 2016, the consolidated interim financial statements at 30 June 2017 and the effectiveness of ORPEA's internal control concerning facilities and information systems;
- monitored the progress by projects arising from the entry into force of law No. 2016-1691 of 9 December 2016 on transparency, the fight against corruption and the modernisation of business life ("Sapin II law");
- introduced a procedure for the approval of Permitted Non-Audit Services.

The Audit Committee also reviewed the risk management section of management report.

APPOINTMENTS AND COMPENSATION COMMITTEE

The following tables show the principal key indicators applicable to the Appointments and Compensation Committee and the individual attendance rates for directors at its meetings.

Principal key indicators	FY 2017	FY 2016
Number of Appointments and Compensation Committee meetings	6	3
Attendance rate at Appointments and Compensation Committee meetings	100%	100%
Number of Appointments and Compensation Committee members*	4	4
Proportion of independent directors*	100%	100%

* *Composition of the Appointments and Compensation Committee at 31 December of the relevant year.*

Directors' individual attendance rates	FY 2017	FY 2016
FFP Invest (represented by Thierry de Poncheville)	100%	100%
Xavier Coirbay(1)	100%	N/A
Bernadette Danet-Chevallier	100%	100%
Christian Hensley(2)	100%	N/A
Alain Carrier(3)	100%	100%
Sophie Malarme-Lecloux(4)	100%	100%

(1) Director since 22 June 2017 and member of the Appointments and Compensation Committee since 26 September 2017.
(2) Member of the Appointments and Compensation Committee since 26 September 2017.
(3) Director and member of the Appointments and Compensation Committee until 27 April 2017.
(4) Director and member of the Appointments and Compensation Committee until 22 June 2017.

Members of the Appointments and Compensation Committee

At 31 December 2017, the Appointments and Compensation Committee had the following four members: FFP Invest (represented by Thierry de Poncheville, Chairman of the Appointments and Compensation Committee), Xavier Coirbay, Bernadette Danet-Chevallier and Christian Hensley. No changes had occurred by the date of publication of this report. Philippe Charrier, Chairman of the Board of Directors, attends its meetings on an advisory basis.

All of its members are independent directors.

The Appointments and Compensation Committee's composition complies with the AFEP-MEDEF Code recommendations that no executive officers should serve on it and that a majority of its members should be independent directors.

The length of the appointment of Appointments and Compensation Committee members is exactly the same as their term in office as a director.

Terms of reference of the Appointments and Compensation Committee

The Appointments and Compensation Committee monitors governance and remuneration issues.

Without prejudice to the powers of the Board of Directors and executive management, the Committee is responsible for:

- providing insight for decisions by the Board of Directors on whether the roles of Chairman and Chief Executive Officer should be combined or split and on the status of executive officers;
- making proposals to the Board concerning the selection of directors;
- making proposals to the Board of Directors concerning the establishment and composition of Board Committees;
- making judgements from time to time about the structure, size and composition of the Board of Directors and submitting recommendations to it with regard to potential changes;
- discussing the independence of directors during the Board of Directors' annual review thereof prior to publication of the annual report and when director candidates are selected;
- issuing an opinion on the proposals by the Chairman of the Board of Directors concerning the appointment of the Chief Executive Officer and the Chief Operating Officer;
- succession planning for executive officers in the event of an unforeseen departure;
- ensuring that the corporate governance code to which the Company refers is actually applied;
- making preparations for Board decisions on updating its Internal Rules of Procedure;
- establishing proposals concerning:
  - the fixed remuneration and bonus paid to the Chairman of the Board, plus any other benefits,
  - the fixed salary and bonus paid to the Chief Executive Officer and to the Chief Operating Officer, plus any other benefits (pension, severance payment, etc.),
  - the total award of directors' fees to be submitted for approval to the General Meeting and how they are to be allocated,
  - the introduction of long-term incentive plans, such as awards of stock options or allotments of bonus shares, including to executive officers.

Operating procedures of the Appointments and Compensation Committee

The Appointments and Compensation Committee is convened by its Chairman whenever he or the Board of Directors deems appropriate.

The agenda for meetings is set by the Appointments and Compensation Committee's Chairman in conjunction with the Board, where the Board has called the meeting. The agenda is sent to members of the Appointments and Compensation Committee prior to the meeting together with all the papers they require for their discussions.

Activities of the Appointments and Compensation Committee in 2017

The Appointments and Compensation Committee met six times during FY 2017 (three times during the previous financial year).

During these meetings, the Appointments and Compensation Committee:

- conducted the succession process for Jean-Claude Marian;
- reviewed the status of each director based on the criteria for independence laid down in the AFEP-MEDEF Code and made recommendations to the Board of Directors;
- issued recommendations concerning the proposals for the appointment of new directors and the reappointment of existing directors in view of the applicable gender balance provisions;

- piloted an annual evaluation of the Board of Directors by an internationally renowned independent firm;
- issued recommendations concerning the size of the bonuses payable in respect of FY 2016 and the remuneration policy for the executive officers in FY 2017;
- discussed the independence of the directors and issued recommendations to the Board of Directors;
- monitored the succession planning conducted for senior managers and extending to grades one tier below them with the assistance of an internationally renowned independent firm;
- issued recommendations concerning a bonus share allotment plan for Yves Le Masne and Jean-Claude Brdenk, in line with the executive remuneration policy for FY 2017, and another plan for certain senior managers;
- reviewed the semi-annual quality reviews.

4.2 EXECUTIVE MANAGEMENT

4.2.1 SEPARATION OF THE DUTIES OF CHAIRMAN FROM THOSE OF CHIEF EXECUTIVE OFFICER

At its meeting of 15 February 2011, the Board of Directors decided to separate the duties of Chairman from those of Chief Executive Officer given the Group's growth and development. This framework has been retained to date.

Yves Le Masne has acted since then as Chief Executive Officer.

Based on a recommendation from the Appointments and Compensation Committee, the Board of Directors at its meeting on 28 March 2017:

- appointed Philippe Charrier as Chairman of the Board of Directors for the remaining term in office of Jean-Claude Marian, who resigned and in whose place he was co-opted as a director, that is until the close of the Annual General Meeting to be held to approve the 2018 financial statements;
- reappointed, prior to the expiry of his previous term in office, Yves Le Masne as Chief Executive Officer for a term of four years ending at the close of the Board of Directors' meeting following the Annual General Meeting to be held to approve the 2020 financial statements;
- reappointed, prior to the expiry of his previous term in office, Jean-Claude Brdenk as Chief Operating Officer for a term of four years ending at the close of the Board of Directors' meeting following the Annual General Meeting to be held to approve the 2020 financial statements.

4.2.2 RESTRICTIONS ON THE POWERS OF EXECUTIVE MANAGEMENT

RESTRICTIONS ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer runs the Company and holds the broadest of powers to act on its behalf in all circumstances. He exercises these powers within the limits of the corporate objects and without prejudice to those that the law expressly allocates to General Meetings and to the Board of Directors.

The Chief Executive Officer must seek the prior approval of the Board of Directors for the following decisions:

- any investment/acquisition of any non-real estate asset in a country in which the Group is already established and in one of its existing business segments (*i.e.* in which a Group Business Unit is already active) in a unit amount per transaction strictly exceeding €25 million;
- any disposal/sale of any non-real estate asset in a unit amount exceeding €5 million;
- any investment/acquisition of any real estate asset in a country in which the Group is already established in a unit amount per transaction strictly exceeding €50 million;
- any disposal/sale of any real estate asset in a country in which the Group is already established in a unit amount per transaction strictly exceeding €50 million;
- any investment/acquisition by the Group in a country in which it was not established hitherto or in a new business segment (no Group Business Units yet active in it);
- any borrowing or financing in a unit amount exceeding €100 million or a change in the terms and conditions of any borrowing or financing in a unit amount exceeding €100 million, with the additional requirement that no funding operations of any size whatsoever may cause dilution without the express approval of the Board of Directors (the Chief Executive Officer is required to inform the Board of Directors at the following Board meeting of any borrowing or financing in excess of €50 million);
- any security deposits, pledges or other guarantees in a unit amount exceeding €100 million (the Chief Executive Officer is required to inform the Board of Directors at the following Board meeting where any deposit, pledge or other guarantee exceeds €50 million);
- any decision concerning the strategic direction of a Group company or any material change in this direction or the business activities of a company;
- the approval and amendment of ORPEA's or the Group's annual budget or business plan;
- any transaction affecting the share capital (including, but not restricted to mergers, demergers, partial asset contributions, increases or reductions in capital, issuance of any negotiable securities, or creation of new classes of shares);
- the policy for dividend payouts or any other form of distribution by the Company to its shareholders;
- the remuneration of the Company's corporate officers;
- any major hires (gross annual salary of over €200,000);
- any plan or award of stock options, bonus shares, incentive payments or profit sharing.

RESTRICTIONS ON THE POWERS OF THE CHIEF OPERATING OFFICER

As Chief Operating Officer, Jean-Claude Brdenk holds the same management powers and the powers to represent the Company as the Chief Executive Officer.

For illustrative purposes, rather than to place restrictions on his powers, the Board of Directors has stated that his powers include:

- directing and overseeing the Group's facilities;
- hiring and dismissing any employees, setting the terms of their employment and their salaries, wages and bonuses;
- entering into and signing for the aforementioned purposes any agreements, appointing any special representatives, and generally taking whatever action is necessary for the general administration of the Group's facilities and implementation of the decisions of the Board of Directors or of the Chief Executive Officer.

The aforementioned restrictions placed by the Board of Directors on the powers of the Chief Executive Officer apply automatically to the Chief Operating Officer.

4.3 REMUNERATION AND BENEFITS GRANTED TO SENIOR EXECUTIVES AND CORPORATE OFFICERS

4.3.1 REMUNERATION AND BENEFITS IN KIND GRANTED TO DIRECTORS

The Combined General Meeting of 23 June 2016 set the aggregate amount of fees to be paid to directors at €500,000 p.a. until shareholders decide otherwise at a General Meeting.

In accordance with the recommendations of the AFEP-MEDEF Code, the variable portion linked to directors' attendance at meetings accounts for the lion's share of the fees paid to directors.

The directors' fees are divided up between individual directors as follows:

- for their attendance at meetings of the Board of Directors (only directors who are not employees), they receive a flat-rate award not exceeding €35,000, consisting of a €15,000 fixed sum and a €20,000 variable portion, from which €2,500 is subtracted per meeting missed, starting from the second meeting missed;
- for attendance at meetings of the Board Committees (Audit Committee and Appointments and Compensation Committee), they receive a fixed sum of €2,000 per meeting, or double this amount for the Committee Chairmen;
- the director representing employees receives a sum of €1,000 per meeting.

Pursuant to these rules, a gross total amount of €451,376.71 was paid to directors for their attendance at meetings of the Board of Directors and its Committees in 2017 (€381,125 in respect of the previous year).

The table below (table 3 – AFEP-MEDEF terminology) shows the amount of directors' fees received by directors in respect of FY 2016 and FY 2017. Non-executive corporate officers did not receive any remuneration or benefits of any kind other than their directors' fees.

Directors	Directors' fees paid in respect of FY 2017	Directors' fees paid in respect of FY 2016
Philippe Charrier(1)	€26,753.42	N/A
Jean-Claude Marian(2)	€8,342.47	€35,000
Yves Le Masne	€35,000	€35,000
Laure Baume(3)	€32,000	€4,375
Xavier Coirbay(4)	€20,506.85	N/A
Bernadette Danet-Chevallier	€47,000	€41,000
FFP Invest (represented by Thierry de Poncheville)	€65,000	€55,000
Jean-Patrick Fortlacroix	€51,000	€51,000
Christian Hensley	€37,000	€23,875
Brigitte Lantz(3)	€35,000	€4,375
Joy Verlé(5)	€25,876.71	N/A
Alain Carrier(6)	€16,719.18	€39,500
Sophie Malarme-Lecloux(7)	€24,589.04	€41,000
Alexandre Malbasa(7)	€20,589.04	€43,000
Sophie Kalaidjian (director representing employees)	€6,000	€8,000
TOTAL	**€451,376.71**	**€381,125.00**

(1) Director and Chairman of the Board of Directors since 28 March 2017.
(2) Director and Chairman of the Board of Directors until 28 March 2017.
(3) Director since 14 December 2016.
(4) Director since 22 June 2017.
(5) Director since 27 April 2017.
(6) Director until 27 April 2017.
(7) Director until 22 June 2017.

On 26 April 2018, based on a proposal from the Appointments and Compensation Committee and having studied a benchmark remuneration study for similar positions by an internationally renowned independent firm (the sample of comparatives consisted of 46 constituents from the SBF 120 index, with market capitalisation at 13 March 2018 ranging between €651.9 million and €82.1 billion), the Board of Directors decided to seek shareholders' approval for an increase in the annual award of directors' fees to €550,000 (from €500,000 at present) at the Annual General Meeting due to be held on 28 June 2018. This larger allocation will result in an increase in:

- the variable portion of directors' fees linked to attendance at Board of Directors' meetings to €25,000;
- the fee payable for attendance at meetings of the Board Committees to €3,000 per meeting;
- the fee payable to the director representing employees to €1,500 per meeting.

4.3.2 REMUNERATION AND BENEFITS IN KIND GRANTED TO EXECUTIVE OFFICERS IN RESPECT OF 2017

In accordance with the recommendations of the AFEP-MEDEF Code, the executive remuneration policy is determined by the Board of Directors based on a proposal submitted by the Appointments and Compensation Committee, with consideration given to the Group's interests, strategy and performance.

The remuneration of the Chairman of the Board of Directors receives only fixed remuneration. However, the remuneration package of the Chief Executive Officer and Chief Operating Officer consists of fixed salary, bonus payment and a long-term incentive plan linked to the Company's share capital.

The remuneration policy for executive officers is determined every year in accordance with the provisions of Article L. 225-37-2 of the French Commercial Code.

The principles and criteria for the determination, award and allotment of the fixed salary, bonuses and exceptional remuneration making up the remuneration and benefits of any kind awarded to Jean-Claude Marian, Philippe Charrier, Yves Le Masne and Jean-Claude Brdenk, in respect of their respective appointments as Chairman of the Board of Directors until 28 March 2017, Chairman of the Board of Directors from 28 March 2017, Chief Executive Officer and Chief Operating Officer, presented in ORPEA's 2016 Registration Document were approved at the Ordinary General Meeting of 22 June 2017.

REMUNERATION OF JEAN-CLAUDE MARIAN, CHAIRMAN OF THE BOARD OF DIRECTORS FROM 1 JANUARY UNTIL 28 MARCH 2017

Jean-Claude Marian resigned from his duties as Chairman and Director at the Board of Directors of 28 March 2017. He was Chairman of the Board of Directors from 1 January until 28 March 2017.

Fixed remuneration

Based on a proposal from the Appointments and Compensation Committee, the Board of Directors decided on 28 March 2017 to leave Jean-Claude Marian's gross annual remuneration as Chairman of the Board of Directors at €550,000 (unchanged on FY 2016). In view of his resignation from his duties as Chairman on the same date, it decided to pay him this amount on a *pro rata* basis. Accordingly, Jean-Claude Marian received gross fixed remuneration of €135,700 in respect of his duties as Chairman of the Board of Directors from 1 January until 28 March 2017.

Directors' fees

Jean-Claude Marian received €8,342.47 in directors' fees in respect of his duties as a director from 1 January until 28 March 2017.

Annual bonus payment and other remuneration

Jean-Claude Marian does not receive any annual bonus payment. He does not receive any other remuneration or benefit in kind. He received no benefit in any form whatsoever upon his resignation from his duties as a director and as Chairman of the Board of Directors.

REMUNERATION OF PHILIPPE CHARRIER, CHAIRMAN OF THE BOARD OF DIRECTORS FROM 28 MARCH UNTIL 31 DECEMBER 2017

At its meeting on 28 March 2017, after Jean-Claude Marian resigned as a director and as Chairman of the Board of Directors with immediate effect following that meeting, the Board of Directors co-opted Philippe Charrier to replace him as a director for the remainder of Jean-Claude Marian's term in office and appointed him as Chairman of the Board of Directors for the duration of his term in office as a director. Shareholders ratified this decision at the Annual General Meeting on 22 June 2017. Philippe Charrier has been Chairman of the Board of Directors since 28 March 2017.

Fixed remuneration

Based on a proposal from the Appointments and Compensation Committee, the Board of Directors decided on 28 March 2017 to set Philippe Charrier's gross annual remuneration as Chairman of the Board of Directors at €120,000 and to pay him the full amount due in respect of FY 2017. Accordingly, Philippe Charrier received gross fixed remuneration of €120,000 in respect of his duties as Chairman of the Board of Directors from 28 March until 31 December 2017.

Directors' fees

Philippe Charrier received €26,753.42 in directors' fees in respect of his duties as a director from 28 March until 31 December 2017.

Annual bonus payment and other remuneration

Philippe Charrier does not receive any annual bonus payment. He does not receive any other remuneration or benefit in kind.

REMUNERATION OF YVES LE MASNE AND JEAN-CLAUDE BRDENK, RESPECTIVELY CHIEF EXECUTIVE OFFICER AND CHIEF OPERATING OFFICER, IN RESPECT OF FY 2017

Key principles

On 4 May 2017, the Board of Directors, based on the recommendation of the Appointments and Compensation Committee, after apprising itself of a benchmark study of the remuneration of similar positions by an internationally renowned independent firm, set the target composition of the remuneration of the Chief Executive Officer and of the Chief Operating Officer as follows:

- fixed salary accounting for one-third;
- an annual bonus payment accounting for one-third; and
- a long-term incentive plan linked to the Company's share capital accounting for the final third.

Based on this proposal, the FY 2017 remuneration package of the Chief Executive Officer and of the Chief Operating Officer was determined as follows:

- Chief Executive Officer:
  - fixed salary: €720,000 (unchanged for the sixth year in a row),
  - annual bonus: target bonus of 70% of fixed salary with a maximum of 150% of the target bonus in the event of outperformance, or a maximum total bonus of 105% (*i.e.* 150% x 70%) of fixed salary,
  - a long-term incentive plan in the form of a bonus share allotment or similar plan, subject to an upper limit of 100% of fixed salary, based on IFRS measurements, as calculated by an independent firm;
- Chief Operating Officer:
  - fixed salary: €640,000 (unchanged on the previous financial year),
  - annual bonus: target bonus of 70% of fixed salary with a maximum of 150% of the target bonus in the event of outperformance, or a maximum total bonus of 105% (*i.e.* 150% x 70%) of fixed salary,
  - a long-term incentive plan in the form of a bonus share allotment or similar plan, subject to an upper limit of 100% of fixed salary, based on IFRS measurements, as calculated by an independent firm.

In addition, the Chief Executive Officer and Chief Operating Officer have a company car, which is their sole benefit in kind.

Performance criteria

The annual bonus payment has the following components:

- a component linked to attainment of quantifiable objectives, representing a target proportion of 80% of the total annual bonus; and
- a component linked to attainment of qualitative objectives, representing a target proportion of 20% of the total annual bonus.

The table below shows the targets governing payment of the annual bonus to the Chief Executive Officer and the Chief Operating Officer in respect of performance in FY 2017, together with the theoretical bonus payments should the target bonus levels not be met, be met or exceeded.

	Actual performance in 2017	Minimum Yves Le Masne/ Jean-Claude Brdenk	Target Yves Le Masne/ Jean-Claude Brdenk	Performance above target level Yves Le Masne/ Jean-Claude Brdenk
QUANTIFIABLE OBJECTIVES *(80% of total bonus payments)*				
Revenue growth	+10.5%	€0 / €0	€403,200 /€358,400	€604,800 /€537,600
Organic growth in revenue	+5.4%			
Growth in EBITDA	+15.4%			
Organic growth in EBITDA	Achieved Confidential figure			
Improvement in the EBITDA margin	+80 basis points			
Increase in free cash flow per share	Achieved Confidential figure			
Increase in adjusted consolidated net profit	11.4%			
Trend in restated financial leverage	-20 basis points			
QUALITATIVE OBJECTIVES *(20% of total bonus payments)*				
Implementation of succession planning extending to grades one tier below senior management and the introduction of a policy of risk management and of development for the principal managers	Completed	€0 / €0	€100,800 /€89,600	€151,200 /€134,400
Results of the annual satisfaction survey	=			
Increase in the real estate ownership rate	+4 points			
Keeping the Board of Directors informed about development projects on a regular basis	Achieved			
Papers for Board of Directors' meetings and Board Committee meetings to be sent out one week in advance	7.5 days			
TOTAL BONUS PAYMENT		**€0 / €0**	**€504,000 /€448,000**	**€756,000 /€672,000**

The principal terms and conditions governing the bonus share allotment plan are as follows:

- amount equal to fixed salary based on the IFRS measurement of shares as calculated by an independent firm, with a reference date of 4 May 2017, the date of the Board of Directors' meeting;
- requirement of continued presence at the Group;
- performance condition: performance of ORPEA's shares dividends included (TSR, total shareholder return) compared with the average performance of the MSCI Europe ex. UK index (made up of over 300 companies in Europe outside the UK) and the CAC 40 index, including dividends paid, during FY 2017 and FY 2018:
  - maximum LTIP if ORPEA's total shareholder return (share price gains + dividends) exceeds the average of both indices over the period by at least 10%,
  - minimum LTIP (*i.e.* zero) if ORPEA's total shareholder return (share price gains + dividends) is the same as or falls below the average of both indices over the period,
  - LTIP pro-rated if ORPEA's total shareholder return (share price gains + dividends) exceeds the average of both indices over the period by between 0% and 10%;
- shares vest based on the performance condition after a two-year vesting period, with a two-year holding period applicable thereafter;
- reference periods: average of ORPEA's share price performance over the period from 1 January 2019 to 30 April 2019, plus the dividend in respect of FY 2018, compared with the same average over the period from 1 January 2017 to 30 April 2017, plus the dividend paid in respect of FY 2016;
- 25% of the vested shares must be held until the allottee's term in office comes to an end.

Commitment given to the Chief Executive Officer and the Chief Operating Officer on the basis of Article L. 225-42-1 of the French Commercial Code

Severance payment

At the meeting of the Board of Directors on 28 March 2017 during which Yves Le Masne's and Jean-Claude Brdenk's terms in office as Chief Executive Officer and Chief Operating Officer respectively were extended, the Board of Directors indicated that they would continue to benefit from the severance payment arrangements should these appointments come to an end. Shareholder approval at the Annual General Meeting due to be held on 28 June 2018 is required for this commitment to be maintained.

These arrangements were determined and decided at the Board of Directors' meetings on 25 March 2013 and 25 April 2013 and approved by shareholders at the General Meeting on 20 June 2013.

In recognition of the major contribution made by the Chief Executive Officer and the Chief Operating Officer to the Group's development over several years, and given their past repudiation of their employment contracts, these arrangements give them the right to receive a severance payment corresponding to 24 months' gross fixed salary and annual bonus (multiple of a monthly average of the remuneration due and paid in respect of the previous two financial years) should their duties as executive officers come to an end.

This severance payment would be paid in the following circumstances:

- in the event they are removed from office by the Board of Directors, irrespective of how their duties are terminated, including by dismissal, a request for them to resign or their non-reappointment (specifically excluding their dismissal for gross misconduct); or
- in the event of a change in control or in the Company's strategy, instigated by the Board of Directors or the relevant corporate officer.

A change in control is defined as any changes in the Company's ownership status arising from any merger, restructuring, disposal, public tender or exchange offer, subsequent to which a shareholder, be it a legal entity or natural person, acting alone or in concert, directly or indirectly, comes into possession of a proportion of the Company's share capital or voting rights that gives it effective control thereof.

In addition, this benefit would be paid by the Board of Directors provided that the average bonus payment in respect of the previous two financial years prior to that in which the relevant corporate officer departs was equal to or over 75% of the target bonus payment (excluding any exceptional remuneration), with this amount being reduced proportionally should the average bonus payment received in the previous two financial years have stood at between 50% and 74% of the target bonus payment excluding any exceptional remuneration and no benefit being paid below a level of 50%.

If Yves Le Masne and Jean-Claude Brdenk are entitled to claim a full basic pension within six months of the termination of their duties, they may be denied this payment.

Unemployment insurance

Yves Le Masne and Jean-Claude Brdenk are covered by an unemployment insurance policy, with the corresponding premiums paid by the Company.

Remuneration of Yves Le Masne, Chief Executive Officer (in respect of FY 2017)

Fixed salary

In accordance with the remuneration policy approved by shareholders at the General Meeting of 22 June 2017 pursuant to Article L. 225-37-2 of the French Commercial Code and reiterated above, Yves Le Masne received a gross fixed salary of €720,000 in respect of FY 2017.

Annual bonus payment

Based on the quantifiable and qualitative criteria laid down in the remuneration policy approved by shareholders at the General Meeting of 22 June 2017 pursuant to Article L. 225-37 of the French Commercial Code and reiterated above, the Board of Directors set at its meeting on 26 April 2018, based on a proposal submitted by the Appointments and Compensation Committee, his gross annual bonus in respect of FY 2017 at €720,000 given that performance exceeded the targets as presented in detail in the above table.

Long-term incentive plan

In accordance with the remuneration policy approved by shareholders at the General Meeting of 22 June 2017 pursuant to Article L. 225-37-2 of the French Commercial Code and reiterated above, Yves Le Masne was allotted 15,625 bonus shares at an IFRS cost of €720,000, based on the terms and conditions set out above.

Directors' fees

Yves Le Masne received €35,000 in directors' fees in respect of his duties as a director in 2017.

Severance payments

No severance payments were made to Yves Le Masne in FY 2017.

Other remuneration and benefits

In addition to the aforementioned items, Yves Le Masne benefits from:

- unemployment insurance paid for by the Company, the premiums for which amounted to €62,490.20 in respect of FY 2017;
- a company car, representing a benefit in kind worth €3,546.48 in respect of FY 2017;
- group personal protection and healthcare cost reimbursement plans in force at the Company on the same basis as those applicable to the employee grade in which he has been classified.

He does not receive any other remuneration (including stock options) or benefit (including any specific additional pension contributions).

Remuneration of Jean-Claude Brdenk, Chief Operating Officer (in respect of FY 2017)

Fixed salary

In accordance with the remuneration policy approved by shareholders at the General Meeting of 22 June 2017 pursuant to Article L. 225-37-2 of the French Commercial Code and reiterated above, Jean-Claude Brdenk received a gross fixed salary of €640,000 in respect of FY 2017.

Annual bonus payment

Based on the quantifiable and qualitative criteria laid down in the remuneration policy approved by shareholders at the General Meeting of 22 June 2017 pursuant to Article L. 225-37-2 of the French Commercial Code and reiterated above, the Board of Directors set at its meeting on 26 April 2018, based on a proposal submitted by the Appointments and Compensation Committee, his gross annual bonus in respect of FY 2017 at €640,000 given that performance exceeded the targets as presented in detail in the above table.

Long-term incentive plan

In accordance with the remuneration policy approved by shareholders at the General Meeting of 22 June 2017 pursuant to Article L. 225-37-2 of the French Commercial Code and reiterated above, Jean-Claude Brdenk was allotted 13,889 bonus shares at an IFRS cost of €640,005.12, based on the terms and conditions set out above.

Severance payments

No severance payments were made to Jean-Claude Brdenk in FY 2017.

Other remuneration and benefits

In addition to the aforementioned items, Jean-Claude Brdenk benefits from:

- unemployment insurance paid for by the Company, the premiums for which amounted to €62,490.20 in respect of FY 2017;
- a company car, representing a benefit in kind worth €4,450.68 in respect of FY 2017;
- group personal protection and healthcare cost reimbursement plans in force at the Company on the same basis as those applicable to the employee grade in which he has been classified.

He does not receive any other remuneration (including directors' fees or stock options) or benefit (including any specific additional pension contributions).

4.3.3 TABLE SUMMARISING THE REMUNERATION AND BENEFITS IN KIND AWARDED TO EXECUTIVE OFFICERS IN RESPECT OF FY 2017

Table summarising the remuneration, options and shares awarded to executive officers (Table 1 – AMF terminology)

	FY 2017	FY 2016
JEAN-CLAUDE MARIAN, CHAIRMAN OF THE BOARD OF DIRECTORS FROM 1 JANUARY UNTIL 28 MARCH 2017		
Remuneration payable in respect of the FY (details provided in table 2)	€145,842.47	€585,000.00
Valuation of the stock options awarded during the FY	€ -	€ -
Valuation of the performance shares awarded during the FY	€ -	€ -
TOTAL	**€145,842.47**	**€585,000.00**
PHILIPPE CHARRIER, CHAIRMAN OF THE BOARD OF DIRECTORS FROM 28 MARCH UNTIL 31 DECEMBER 2017		
Remuneration payable in respect of the FY (details provided in table 2)	€146,753.42	€ -
Valuation of the stock options awarded during the FY	€ -	€ -
Valuation of the performance shares awarded during the FY	€ -	€ -
TOTAL	**€146,753.42**	**€ -**
YVES LE MASNE, CHIEF EXECUTIVE OFFICER		
Remuneration payable in respect of the FY (details provided in table 2)	€1,478,546.48	€1,258,046.48
Valuation of the stock options awarded during the FY	€ -	€ -
Valuation of the performance shares awarded during the FY	€720,000.00	€799,240.00
TOTAL	**€2,198,546.48**	**€2,057,286.48**
JEAN-CLAUDE BRDENK – CHIEF OPERATING OFFICER		
Remuneration payable in respect of the FY (details provided in table 2)	€1,284,450.68	€1,088,450.68
Valuation of the stock options awarded during the FY	€ -	€ -
Valuation of the performance shares awarded during the FY	€640,005.12	€799,240.00
TOTAL	**€1,924,455.80**	**€1,887,690.68**

Table summarising the remuneration of executive officers (Table 2 – AFEP-MEDEF terminology)

	FY 2017		FY 2016	
	Amounts due	Amounts paid	Amounts due	Amounts paid
JEAN-CLAUDE MARIAN, CHAIRMAN OF THE BOARD OF DIRECTORS FROM 1 JANUARY UNTIL 28 MARCH 2017				
Fixed remuneration	€137,500.00	€137,500.00	€550,000.00	€550,000.00
Annual bonus payment	€ -	€ -	€ -	€ -
Exceptional remuneration	€ -	€ -	€ -	€ -
Directors' fees	€8,342.47	€35,000.00	€35,000.00	€25,000.00
Benefits in kind	€ -	€ -	€ -	€ -
TOTAL	**€145,842.47**	**€172,500.00**	**€585,000.00**	**€575,000.00**
PHILIPPE CHARRIER, CHAIRMAN OF THE BOARD OF DIRECTORS FROM 28 MARCH UNTIL 31 DECEMBER 2017				
Fixed remuneration	€120,000.00	€120,000.00	€ -	€ -
Annual bonus payment	€ -	€ -	€ -	€ -
Exceptional remuneration	€ -	€ -	€ -	€ -
Directors' fees	€26,753.42	€ -	€ -	€ -
Benefits in kind	€ -	€ -	€ -	€ -
TOTAL	**€146,753.42**	**€120,000.00**	**€ -**	**€ -**
YVES LE MASNE, CHIEF EXECUTIVE OFFICER				
Fixed salary	€720,000.00	€720,000.00	€720,000.00	€720,000.00
Annual bonus payment	€720,000.00	€399,600.00	€399,600.00	€335,000.00
Exceptional remuneration	€ -	€99,900.00	€99,900.00	€144,000.00
Directors' fees	€35,000.00	€35,000.00	€35,000.00	€25,000.00
Benefits in kind	€3,546.48	€3,546.48	€3,546.48	€3,546.48
TOTAL	**€1,478,546.48**	**€1,258,046.48**	**€1,258,046.48**	**€1,227,546.48**
JEAN-CLAUDE BRDENK – CHIEF OPERATING OFFICER				
Fixed salary	€640,000.00	€640,000.00	€640,000.00	€640,000.00
Annual bonus payment	€640,000.00	€355,200.00	€355,200.00	€297,600.00
Exceptional remuneration	€ -	€88,800.00	€88,800.00	€128,000.00
Directors' fees	€ -	€ -	€ -	€ -
Benefits in kind	€4,450.68	€4,450.68	€4,450.68	€4,450.68
TOTAL	**€1,284,450.68**	**€1,088,450.68**	**€1,088,450.68**	**€1,070,050.68**

Table summarising the performance shares awarded during the financial year to executive officers (Table 6 – AFEP-MEDEF terminology)

	Number of shares awarded during the financial year	Valuation of the shares according to the method used for consolidated financial statements	Vesting date	Date available for sale	Performance conditions
PLAN NO. 3 – 4 MAY 2017					
Yves Le Masne, Chief Executive Officer	15,625	€720,000.00	4 May 2019	4 May 2021	Performance of ORPEA's shares dividends included (TSR, total shareholder return) compared with the average performance of the MSCI Europe ex. UK index (made up of over 300 companies in Europe outside the UK) and the CAC 40 index, including dividends paid, during FY 2017 and FY 2018
Jean-Claude Brdenk – Chief Operating Officer	13,889	€640,005.12	4 May 2019	4 May 2021	Performance of ORPEA's shares dividends included (TSR, total shareholder return) compared with the average performance of the MSCI Europe ex. UK index (made up of over 300 companies in Europe outside the UK) and the CAC 40 index, including dividends paid, during FY 2017 and FY 2018

Table summarising the performance shares that became available for sale during the financial year to executive officers (Table 7 – AFEP-MEDEF terminology)

	Number of shares becoming available for sale during the financial year	Vesting terms and conditions
PLAN NO. 1 – 10 FEBRUARY 2016		
Yves Le Masne, Chief Executive Officer	13,000	Requirement of continued presence at the Group Revenue and EBITDA
Jean-Claude Brdenk – Chief Operating Officer	13,000	Requirement of continued presence at the Group Revenue and EBITDA

Table showing previous allotments of performance shares (Table 9 – AFEP-MEDEF terminology)

Information about performance shares

	Plan No. 1	**Plan No. 3**
Date of General Meeting	6 November 2015	23 June 2016
Date of Board meeting	10 February 2016	4 May 2017
Maximum total number of bonus shares that may be allotted	82,250	29,514
o/w number of bonus shares that may be allotted to Yves Le Masne, Chief Executive Officer	*13,000*	*15,625*
o/w number of bonus shares that may be allotted to Jean-Claude Brdenk, Chief Operating Officer	*13,000*	*13,889*
Vesting date of the shares	10 April 2017	4 May 2019
End date of holding period	10 April 2019	4 May 2021
Performance conditions	Revenue and EBITDA*	Total shareholder return (share price increase + dividend)**
Number of shares vested at 31 December 2017	82,250	N/A
Total number of shares cancelled or voided	0	N/A
Bonus shares allotted not yet vested at 31 December 2017	0	29,514

* *Revenue and EBITDA targets set in the 2015 and 2016 budgets as presented to ORPEA's Board of Directors.*

** *Should ORPEA's total shareholder return (share price increase dividends included) exceed the average performance of the MSCI Europe ex. UK index and the CAC 40 index, including dividends paid, by 10% or more during FY 2017 and FY 2018, all the bonus ORPEA shares will vest definitively.*
Should ORPEA's total shareholder return (share price increase dividends included) be equal to or below the average performance of the MSCI Europe ex. UK index and the CAC 40 index, including dividends paid, during FY 2017 and FY 2018, no bonus ORPEA shares will vest definitively.
Should ORPEA's total shareholder return (share price increase dividends included) exceed the average performance of the MSCI Europe ex. UK index and the CAC 40 index, including dividends paid, by between 0% and 10% during FY 2017 and FY 2018, the number of bonus ORPEA shares that will vest definitively will be calculated proportionally on a straight-line basis between those two points. The number of ORPEA shares will be rounded down to the nearest full number where this calculation does not produce an integer.
The reference period used to assess when this condition is met is the average of ORPEA's share price performance over the period from 1 January 2019 to 30 April 2019, plus the dividend in respect of FY 2018, compared with the same average over the period from 1 January 2017 to 30 April 2017, plus the dividend paid in respect of FY 2016.

Summary of the status of executive officers in respect of FY 2017 (Table 11 – AFEP-MEDEF terminology)

	Employment contract		**Supplementary pension scheme**		**Payments or benefits due or likely to become due as a result of termination or change of position**		**Payments under a non-competition clause**	
Executive officers' remuneration	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Jean-Claude Marian *Chairman of the Board of Directors* Date appointed: 23 June 2015 End date of term in office: Board meeting of 28 March 2017		x		x		x		x
Philippe Charrier *Chairman of the Board of Directors* Date appointed: 28 March 2017 End date of term in office: 2019 AGM		x		x		x		x
Yves Le Masne *Chief Executive Officer* Date appointed: 28 March 2017 End date of term in office: Board meeting that follows the 2021 AGM		x		x	x			x
Jean-Claude Brdenk *Chief Operating Officer* Date appointed: 28 March 2017 End date of term in office: Board meeting that follows the 2021 AGM		x		x	x			x

4.3.4 REMUNERATION PAID OR AWARDED IN RESPECT OF FY 2017 TO EXECUTIVE OFFICERS SUBJECT TO SHAREHOLDERS' RETROSPECTIVE SAY ON PAY AT THE ANNUAL GENERAL MEETING ON 28 JUNE 2018

Pursuant to Article L. 225-100 of the French Commercial Code, the Company will seek shareholder approval at the Annual General Meeting due to be held on 28 June 2018 of the fixed salary or remuneration, annual bonus and exceptional remuneration and the benefits of any kind paid or awarded in respect of FY 2017 to the executive officers, namely Jean-Claude Marian, Jean-Claude Marian, Chairman of the Board of Directors from 1 January until 28 March 2017, Philippe Charrier, Chairman of the Board of Directors from 28 March until 31 December 2017, Yves Le Masne, Chief Executive Officer, and Jean-Claude Brdenk, Chief Operating Officer. In accordance with Article L. 225-100 of the French Commercial Code, payment of the annual bonus and exceptional remuneration is contingent upon shareholder approval of the relevant individual's remuneration at the Annual General Meeting.

Jean-Claude Marian

Chairman of the Board of Directors from 1 January until 28 March 2017

Remuneration	Amounts or accounting value	Comments
Fixed remuneration	€137,500	Jean-Claude Marian's fixed annual remuneration is €550,000 (unchanged compared with FY 2016). Since Jean-Claude Marian resigned from his duties as Chairman of the Board of Directors on 28 March 2017, a decision was made to pay him his FY 2017 remuneration on a *pro rata* basis, representing a total of €137,500.
Annual bonus payment	N/A	Jean-Claude Marian did not receive any annual bonus payments.
Exceptional remuneration	N/A	Jean-Claude Marian did not receive any exceptional remuneration.
Directors' fees	€8,342.47	Jean-Claude Marian received €8,342.47 in directors' fees in respect of his duties as a director from 1 January until 28 March 2017.
Long-term incentive plan	N/A	Jean-Claude Marian did not benefit from any long-term incentive plan.
Sign-on or severance payments	N/A	No commitment of this kind has been made. He received no benefit in any form whatsoever upon his resignation from his duties as a director and as Chairman of the Board of Directors.
Benefits of any kind	N/A	Jean-Claude Marian did not receive any benefits in kind.

Philippe Charrier

Chairman of the Board of Directors from 28 March until 31 December 2017

Remuneration	Amounts or accounting value	Comments
Fixed remuneration	€120,000	The Board of Directors set on 28 March 2017 Philippe Charrier's gross annual fixed remuneration as Chairman of the Board of Directors from that date at €120,000 and decided to pay him the full amount due in respect of FY 2017.
Annual bonus payment	N/A	Philippe Charrier did not receive any annual bonus payments.
Exceptional remuneration	N/A	Philippe Charrier did not receive any exceptional remuneration.
Directors' fees	€26,753.42	Philippe Charrier received €26,753.42 in directors' fees in respect of his duties as a director from 28 March until 31 December 2017.
Long-term incentive plan	N/A	Philippe Charrier did not benefit from any long-term incentive plan.
Sign-on or severance payments	N/A	No commitment of this kind has been made. He received no benefit in any form whatsoever upon his appointment.
Benefits of any kind	N/A	Philippe Charrier received no benefits in kind.

Yves Le Masne

Chief Executive Officer

Remuneration	Amounts or accounting value	Comments
Fixed annual salary	€720,000	Fixed annual salary unchanged on FY 2016.
Annual bonus payment*	€720,000	The objectives to be met for payment of the Chief Executive Officer's bonus for 2017 were set as follows: ■ component linked to attainment of quantifiable objectives (80%): ● revenue growth, ● organic growth in revenue and EBITDA, ● growth in EBITDA and EBITDA margin improvement on year n-1, ● increase in free cash flow per share, ● increase in adjusted consolidated net profit, ● trends in restated financial leverage; ■ component linked to attainment of qualitative objectives (20%): ● implementation of succession planning extending to grades one tier below senior management and the introduction of a policy of risk management and of development for the principal managers, ● results of the annual satisfaction survey, ● increase in the real estate ownership rate, ● information for the Board of Directors about development projects on a regular basis, ● circulation of Board papers seven days ahead of Board meetings. Based on these criteria, the Board of Directors set his gross annual bonus payment at €720,000 given that performance exceeded the target criteria.
Exceptional remuneration	N/A	Yves Le Masne did not receive any exceptional remuneration.
Directors' fees	€35,000	Yves Le Masne received €35,000 in directors' fees in respect of his duties as a director in 2017.
Long-term incentive plan	13,000 bonus shares vested	Given the attainment of the performance conditions (revenue and EBITDA targets set in the 2015 and 2016 budgets as presented to the ORPEA's Board of Directors), Yves Le Masne was allotted 13,000 bonus shares on 10 April 2017. Holding period: two years. 25% of the vested shares must be held until his term in office comes to an end.
	Allotment of 15,625 bonus shares IFRS value: €720,000	Requirement of continued presence at the Group Performance condition: performance of ORPEA's shares dividends included (TSR, total shareholder return) compared with the average performance of the MSCI Europe ex. UK index (made up of over 300 companies in Europe outside the UK) and the CAC 40 index, including dividends paid, during FY 2017 and FY 2018: ■ maximum LTIP if ORPEA's total shareholder return (share price gains + dividends) exceeds the average of both indices over the period by at least 10%; ■ minimum LTIP (*i.e.* zero) if ORPEA's total shareholder return (share price gains + dividends) is the same as or falls below the average of both indices over the period; ■ LTIP pro-rated if the total shareholder return (share price gains + dividends) exceeds the average of both indices over the period by between 0% and 10%. Reference periods: average of ORPEA's share price performance over the period from 1 January 2019 to 30 April 2019, plus the dividend in respect of FY 2018, compared with the same average over the period from 1 January 2017 to 30 April 2017, plus the dividend paid in respect of FY 2016. Vesting period: two years. Holding period: two years. 25% of the vested shares must be held until his term in office comes to an end.

* *Shareholder approval at the Annual General Meeting due to be held on 28 June 2018 is required for payment of this remuneration.*

Remuneration	Amounts or accounting value	Comments
Sign-on or severance payments	No payment	At the Board of Directors' meeting on 28 March 2017 during which Yves Le Masne's term as Chief Executive Officer was extended, the Board of Directors confirmed he would continue to benefit from the severance payment should this appointment come to an end. These arrangements were determined and decided at the Board of Directors' meetings on 25 March 2013 and 25 April 2013 and approved by shareholders at the General Meeting on 20 June 2013. In recognition of the Chief Executive Officer's major contribution to the Group's development over several years, and given his prior repudiation of his employment contract, these arrangements give him the right to a severance payment corresponding to 24 months' gross fixed salary and annual bonus (multiple of a monthly average of the remuneration due and paid in respect of the previous two financial years) should his duties as an executive officer come to an end. This severance payment would be paid in the following circumstances: ■ in the event he is removed from office by the Board of Directors, irrespective of how his duties are terminated, including by dismissal, a request for him to resign or his non-reappointment (specifically excluding his dismissal for gross misconduct); or ■ in the event of a change in control or in the Company's strategy, initiated by the Board of Directors or the relevant corporate officer. A change in control is defined as any changes in the Company's ownership status arising from any merger, restructuring, disposal, public tender or exchange offer, subsequent to which a shareholder, be it a legal entity or natural person, acting alone or in concert, directly or indirectly, comes into possession of a proportion of the Company's share capital or voting rights that gives it effective control thereof. In addition, this benefit would be paid by the Board of Directors provided that the average bonus payment in respect of the previous two financial years prior to that in which the relevant corporate officer departs was equal to or over 75% of the target bonus payment (excluding any exceptional remuneration), with this amount being reduced proportionally should the average bonus payment received in the previous two financial years have stood at between 50% and 74% of the target bonus payment excluding any exceptional remuneration and no benefit being paid below a level of 50%. If Yves Le Masne is entitled to claim a full basic pension within six months of the termination of his duties, he may be denied this payment.
Benefits of any kind	€66,036.68	Unemployment insurance paid for by the Company, the premiums for which amounted to €62,490.20 in respect of FY 2017. A company car, representing a benefit in kind worth €3,546.48 in respect of FY 2017. Application of Group personal protection and healthcare cost reimbursement plans in force at the Company on the same basis as those applicable to the employee grade in which he has been classified.

Jean-Claude Brdenk

Chief Operating Officer

Remuneration	Amounts or accounting value	Comments
Fixed annual salary	€640,000	Fixed annual salary unchanged on FY 2016.
Annual bonus payment*	€640,000	The objectives to be met for payment of the Chief Operating Officer's bonus for 2017 were set as follows: ■ component linked to attainment of quantifiable objectives (80%): ● revenue growth, ● organic growth in revenue and EBITDA, ● growth in EBITDA and EBITDA margin improvement on year n-1, ● increase in free cash flow per share, ● increase in adjusted consolidated net profit, ● trends in restated financial leverage; ■ component linked to attainment of qualitative objectives (20%): ● implementation of succession planning extending to grades one tier below senior management and the introduction of a policy of risk management and of development for the principal managers, ● results of the annual satisfaction survey, ● increase in the real estate ownership rate, ● information for the Board of Directors about development projects on a regular basis, ● circulation of Board papers seven days ahead of Board meetings. Based on these criteria, the Board of Directors set his gross annual bonus payment at €640,000 given that performance exceeded the target criteria.
Exceptional remuneration	N/A	Jean-Claude Brdenk did not receive any exceptional remuneration.
Directors' fees	N/A	Since Jean-Claude Brdenk is not a director, he does not receive directors' fees.
Long-term incentive plan	13,000 bonus shares vested	Given the attainment of the performance conditions (revenue and EBITDA targets set in the 2015 and 2016 budgets as presented to the ORPEA's Board of Directors), Jean-Claude Brdenk was allotted 13,000 bonus shares on 10 April 2017. Holding period: two years. 25% of the vested shares must be held until his term in office comes to an end.
	Allotment of 13,889 bonus shares IFRS value: €640,005.12	Requirement of continued presence at the Group Performance condition: performance of ORPEA's shares dividends included (TSR, total shareholder return) compared with the average performance of the MSCI Europe ex. UK index (made up of over 300 companies in Europe outside the UK) and the CAC 40 index, including dividends paid, during FY 2017 and FY 2018: ■ maximum LTIP if ORPEA's total shareholder return (share price gains + dividends) exceeds the average of both indices over the period by at least 10%; ■ minimum LTIP (*i.e.* zero) if ORPEA's total shareholder return (share price gains + dividends) is the same as or falls below the average of both indices over the period; ■ LTIP pro-rated if the total shareholder return (share price gains + dividends) exceeds the average of both indices over the period by between 0% and 10%. Reference periods: average of ORPEA's share price performance over the period from 1 January 2019 to 30 April 2019, plus the dividend in respect of FY 2018, compared with the same average over the period from 1 January 2017 to 30 April 2017, plus the dividend paid in respect of FY 2016. Vesting period: two years. Holding period: two years. 25% of the vested shares must be held until his term in office comes to an end.

* *Shareholder approval at the Annual General Meeting due to be held on 28 June 2018 is required for payment of this remuneration.*

Remuneration	Amounts or accounting value	Comments
Sign-on or severance payments	No payment	At the Board of Directors' meeting on 28 March 2017 during which Jean-Claude Brdenk's term as Chief Operating Officer was extended, the Board of Directors confirmed he would continue to benefit from the severance payment should this appointment come to an end. These arrangements were determined and decided at the Board of Directors' meetings on 25 March 2013 and 25 April 2013 and approved by shareholders at the General Meeting on 20 June 2013. In recognition of the Chief Operating Officer's major contribution to the Group's development over several years, and given his prior repudiation of his employment contract, these arrangements give him the right to a severance payment corresponding to 24 months' gross fixed salary and annual bonus (multiple of a monthly average of the remuneration due and paid in respect of the previous two financial years) should his duties as an executive officer come to an end. This severance payment would be paid in the following circumstances: ■ in the event he is removed from office by the Board of Directors, irrespective of how his duties are terminated, including by dismissal, a request for him to resign or his non-reappointment (specifically excluding his dismissal for gross misconduct); or ■ in the event of a change in control or in the Company's strategy, initiated by the Board of Directors or the relevant corporate officer. A change in control is defined as any changes in the Company's ownership status arising from any merger, restructuring, disposal, public tender or exchange offer, subsequent to which a shareholder, be it a legal entity or natural person, acting alone or in concert, directly or indirectly, comes into possession of a proportion of the Company's share capital or voting rights that gives it effective control thereof. In addition, this benefit would be paid by the Board of Directors provided that the average bonus payment in respect of the previous two financial years prior to that in which the relevant corporate officer departs was equal to or over 75% of the target bonus payment (excluding any exceptional remuneration), with this amount being reduced proportionally should the average bonus payment received in the previous two financial years have stood at between 50% and 74% of the target bonus payment excluding any exceptional remuneration and no benefit being paid below a level of 50%. If Jean-Claude Brdenk is entitled to claim a full basic pension within six months of the termination of his duties, he may be denied this payment.
Benefits of any kind	€66,940.88	Unemployment insurance paid for by the Company, the premiums for which amounted to €62,490.20 in respect of FY 2017. A company car, representing a benefit in kind worth €4,450.68 in respect of FY 2017. Application of Group personal protection and healthcare cost reimbursement plans in force at the Company on the same basis as those applicable to the employee grade in which he has been classified.

4.3.5 REMUNERATION POLICY IN RESPECT OF FY 2018 FOR EXECUTIVE OFFICERS SUBJECT TO SHAREHOLDERS' FORWARD-LOOKING SAY ON PAY AT THE ANNUAL GENERAL MEETING ON 28 JUNE 2018

In this report prepared in accordance with Article L. 225-37-2 of the French Commercial Code, the Board of Directors presents the principles and criteria used to determine, award and allot the fixed salary, bonus payments and exceptional remuneration making up the overall remuneration and benefits of any kind that may be awarded in respect of FY 2018 to executive officers.

Shareholder approval is being sought for the executive remuneration policy for FY 2018 at the General Meeting due to be held on 28 June 2018 based on this report. To this end, three resolutions are being submitted for shareholders' approval in respect of the Chairman of the Board of Directors, the Chief Executive Officer and the Chief Operating Officer.

The Board of Directors is guided by the recommendations of the AFEP-MEDEF Code when determining the remuneration and benefits awarded to executive officers.

In accordance with these recommendations and based on a proposal submitted by the Appointments and Compensation Committee, the Board of Directors makes sure that the executive remuneration policy complies with the principles of comprehensiveness, balance, comparability, consistency, transparency and proportionality and also reflects market practice.

REMUNERATION OF PHILIPPE CHARRIER, CHAIRMAN OF THE BOARD OF DIRECTORS PROPOSED FOR FY 2018

Fixed remuneration

On 26 April 2018, based on a recommendation received from the Appointments and Compensation Committee and having studied a benchmark remuneration study for similar positions by an internationally renowned independent firm (the sample of comparatives consisted of 38 constituents from the SBF 120 index, with market capitalisation at 13 March 2018 ranging between €651.9 million and €82.1 billion) and to reflect his experience and the nature of the duties entrusted to him (as presented in section 4.1.2 above), the Board of Directors decided to increase Philippe Charrier's gross fixed remuneration as Chairman of the Board of Directors to €260,000.

Directors' fees

Philippe Charrier receives directors' fees in respect of his duties as a director, which are calculated as set out in section 4.3.1 above.

Annual bonus payment and other remuneration

Philippe Charrier does not receive any annual bonus payment. He does not receive any other remuneration or benefit in kind.

REMUNERATION OF YVES LE MASNE, CHIEF EXECUTIVE OFFICER, AND JEAN-CLAUDE BRDENK, CHIEF OPERATING OFFICER

Key principles

On 26 April 2018, based on a recommendation received from the Appointments and Compensation Committee and having studied an update of the benchmark remuneration study for similar positions conducted in 2017 by an internationally renowned firm (the sample of comparatives consisted of 19 constituents from the SBF 80 index, with market capitalisation at 7 March 2018 ranging between €2.2 billion and €10.7 billion and FY 2017 revenue ranging between €1.2 billion and €6.5 billion), the Board of Directors decided to retain for FY 2018 the same remuneration structure for Yves Le Masne and Jean-Claude Brdenk, respectively Chief Executive Officer and Chief Operating Officer, pursuant to the remuneration policy for FY 2017 and approved by shareholders at the General Meeting on 22 June 2017, as follows:

- fixed salary accounting for one-third;
- an annual bonus payment accounting for one-third; and
- a long-term incentive plan linked to the Company's share capital accounting for the final third.

Based on this proposal, the FY 2018 remuneration package for Yves Le Masne, Chief Executive Officer, and for Jean-Claude Brdenk, the Chief Operating Officer, will have the following components:

- Yves Le Masne, Chief Executive Officer:
  - fixed salary: €760,000 (an increase of 5.55% based on the 2017 update of the benchmark report referred to above, lifting it from the first quartile to the median level, given that Yves Le Masne's fixed annual salary had remained unchanged since 1 June 2013),
  - annual bonus: target bonus of 100% of fixed annual salary with a maximum of 150% of the target bonus in the event of outperformance, or a maximum total bonus of 150% (*i.e.* 150% x 100%) of fixed salary,
  - a long-term incentive plan covering a period of three years in the form of a bonus share allotment or similar plan, subject to an upper limit of 100% of fixed salary, based on IFRS measurements, as calculated by an independent firm;

- Jean-Claude Brdenk, Chief Operating Officer:
  - fixed salary: €640,000 (unchanged for the second year in a row),
  - annual bonus: target bonus of 100% of fixed annual salary with a maximum of 150% of the target bonus in the event of outperformance, or a maximum total bonus of 150% (*i.e.* 150% x 100%) of fixed salary,
  - a long-term incentive plan covering a period of three years in the form of a bonus share allotment or similar plan, subject to an upper limit of 100% of fixed salary, based on IFRS measurements, as calculated by an independent firm.

In addition, Yves Le Masne, Chief Executive Officer, and Jean-Claude Brdenk, Chief Operating Officer, will receive the following benefits in kind:

- a company car;
- application of group personal protection and healthcare cost reimbursement plans in force at the Company on the same basis as those applicable to the employee grade in which they have been classified.

Lastly, Yves Le Masne, Chief Executive Officer, receives directors' fees in respect of his duties as a director, which are calculated as set out in section 4.3.1 above.

The annual bonus payments and any exceptional remuneration awarded in respect of the financial year now ended to the Chief Executive Officer and to the Chief Operating Officer can be paid only after their approval by shareholders at the General Meeting due to be held on 28 June 2018, as provided for under Articles L. 225-37-2 and L. 225-100 of the French Commercial Code.

Performance criteria

The annual bonus payment has the following components:

- a component linked to attainment of quantifiable objectives, representing a target proportion of 70% of the total annual bonus (*vs.* 80% in the previous year); and
- a component linked to attainment of qualitative objectives, representing a target proportion of 30% of the total annual bonus (*vs.* 20% in the previous year).

This change in the weighting of the quantifiable and qualitative criteria is intended to strengthen the importance of objectives that, though non-financial, are still critical for the Group's long-term development.

The targets for the FY 2018 annual bonus payable to Yves Le Masne, the Chief Executive Officer, and Jean-Claude Brdenk, the Chief Operating Officer, are primarily set as follows:

- **component linked to attainment of quantifiable objectives (70%):**
  - revenue growth,
  - organic growth in revenue and EBITDA,
  - growth in EBITDA and EBITDA margin improvement on year n-1,
  - increase in free cash flow per share,
  - increase in adjusted consolidated net profit,
  - trends in restated financial leverage,
  - trends in ORPEA's gearing.

  The level of attainment of the quantifiable objectives has been set precisely, but has not been made public for confidentiality reasons;
- **component linked to attainment of qualitative objectives (30%):**
  - implementation of the recommendations arising from the evaluation of the effectiveness of the Board of Directors,
  - efforts to lay the foundations for the Group's future development,
  - the quality review;
- **share-based LTIP:**
  - amount equal to fixed salary based on the IFRS measurement of shares as calculated by an independent firm, with a reference date of 26 April 2018, the date of the Board of Directors' meeting,
  - requirement of continued presence at the Group,
  - performance condition: performance of ORPEA's shares dividends included (TSR, total shareholder return) compared with the average performance of the MSCI Europe ex. UK index (made up of over 300 companies in Europe outside the UK) and the CAC 40 index, including dividends paid, during FY 2018, FY 2019 and FY 2020:
    - maximum LTIP if ORPEA's total shareholder return exceeds the average of both indices over the period by at least 10%,
    - minimum LTIP (*i.e.* zero) if ORPEA's total shareholder return is the same as or falls below the average of both indices over the period,
    - LTIP pro-rated if ORPEA's total shareholder return exceeds the average of both indices over the period by between 0% and 10%,
  - reference periods: average of ORPEA's share price performance over the period from 1 January 2021 to 30 April 2021, plus the dividend in respect of FY 2020, compared with the same average over the period from 1 January 2018 to 30 April 2018, plus the dividend paid in respect of FY 2017,
  - shares vest based on the performance condition after a three-year vesting period,
  - 25% of the vested shares must be held until the allottee's term in office comes to an end.

Commitments to Yves Le Masne, Chief Executive Officer, and Jean-Claude Brdenk, Chief Operating Officer, on the basis of Article L. 225-90-1 of the French Commercial Code

Severance payment

At the meeting of the Board of Directors on 28 March 2017 during which Yves Le Masne's and Jean-Claude Brdenk's terms in office as Chief Executive Officer and Chief Operating Officer respectively were extended, the Board of Directors indicated that they would continue to benefit from the severance payment arrangements should these appointments come to an end.

These arrangements were determined and decided at the Board of Directors' meetings on 25 March 2013 and 25 April 2013 and approved by shareholders at the General Meeting on 20 June 2013.

In recognition of the major contribution made by the Chief Executive Officer and the Chief Operating Officer to the Group's development over several years, and given their past repudiation of their employment contracts, these arrangements give them the right to receive a severance payment corresponding to 24 months' gross fixed salary and annual bonus (multiple of a monthly average of the remuneration due and paid in respect of the previous two financial years) should their duties as executive officers come to an end.

This severance payment would be paid in the following circumstances:

- in the event they are removed from office by the Board of Directors, irrespective of how their duties are terminated, including by dismissal, a request for them to resign or their non-reappointment (specifically excluding their dismissal for gross misconduct); or
- in the event of a change in control or in the Company's strategy, initiated by the Board of Directors or the relevant corporate officer.

A change in control is defined as any changes in the Company's ownership status arising from any merger, restructuring, disposal, public tender or exchange offer, subsequent to which a shareholder, be it a legal entity or natural person, acting alone or in concert, directly or indirectly, comes into possession of a proportion of the Company's share capital or voting rights that gives it effective control thereof.

In addition, this benefit would be paid by the Board of Directors provided that the average bonus payment in respect of the previous two financial years prior to that in which the relevant corporate officer departs was equal to or over 75% of the target bonus payment (excluding any exceptional remuneration), with this amount being reduced proportionally should the average bonus payment received in the previous two financial years have stood at between 50% and 74% of the target bonus payment excluding any exceptional remuneration and no benefit being paid below a level of 50%.

If Yves Le Masne and Jean-Claude Brdenk are entitled to claim a full basic pension within six months of the termination of their duties, they may be denied this payment.

Unemployment insurance

Yves Le Masne and Jean-Claude Brdenk are covered by an unemployment insurance policy, with the corresponding premiums paid by the Company.

DRAFT RESOLUTIONS SUBMITTED FOR SHAREHOLDERS' APPROVAL

Tenth resolution

Approval of the principles and criteria used to determine, award and allot the total remuneration and benefits of any kind that may be awarded in respect of FY 2018 to Philippe Charrier, Chairman of the Board of Directors

The General Meeting, deliberating in accordance with the *quorum* and majority voting requirements for ordinary general meetings, apprised of the Board of Directors' report prepared in accordance with the provisions of Article L. 225-37 of the French Commercial Code, approves all the principles and criteria used to determine, award and allot the fixed remuneration, bonus payments and exceptional remuneration making up the overall remuneration and benefits of any kind that may be awarded in respect of FY 2018 to Philippe Charrier, Chairman of the Board of Directors, as shown in paragraph 4.3.5 of the 2017 Registration Document and in the documentation for the meeting.

Eleventh resolution

Approval of the principles and criteria used to determine, award and allot the total remuneration and benefits of any kind that may be awarded in respect of FY 2018 to Yves Le Masne, Chief Executive Officer

The General Meeting, deliberating in accordance with the *quorum* and majority voting requirements for ordinary general meetings, apprised of the Board of Directors' report prepared in accordance with the provisions of Article L. 225-37 of the French Commercial Code, approves all the principles and criteria used to determine, award and allot the fixed salary, bonus payments and exceptional remuneration making up the overall remuneration and benefits of any kind that may be awarded in respect of FY 2018 to Yves Le Masne, Chief Executive Officer, as shown in paragraph 4.3.5 of the 2017 Registration Document and in the documentation for the meeting.

Twelfth resolution

Approval of the principles and criteria used to determine, award and allot the total remuneration and benefits of any kind that may be awarded in respect of FY 2018 to Jean-Claude Brdenk, Chief Operating Officer

The General Meeting, deliberating in accordance with the *quorum* and majority voting requirements for ordinary general meetings, apprised of the Board of Directors' report prepared in accordance with the provisions of Article L. 225-37 of the French Commercial Code, approves all the principles and criteria used to determine, award and allot the fixed salary, bonus payments and exceptional remuneration making up the overall remuneration and benefits of any kind that may be awarded in respect of FY 2018 to Jean-Claude Brdenk, Chief Operating Officer, as shown in paragraph 4.3.5 of the 2017 Registration Document and in the documentation for the meeting.

4.4 SPECIAL ARRANGEMENTS FOR SHAREHOLDERS TO PARTICIPATE AT GENERAL MEETINGS

Pursuant to Article L. 225-37-4-9° of the French Commercial Code, the special arrangements for shareholders to participate at General Meetings are contained in Article 24 to 28 of the Company's Articles of Association (see section 7.1.4 of this Registration Document).

4.5 AGREEMENTS ENTERED INTO BETWEEN A CORPORATE OFFICER AND A SUBSIDIARY

Pursuant to Article L. 225-38 of the French Commercial Code, the agreements entered into, directly or via a third party, between one of the corporate officers or one of the shareholders holding more than 10% of the Company's voting rights, and a company in which the Company owns directly or indirectly more than half of the share capital, other than agreements covering recurring transactions entered into at arm's length, are shown in Appendix 3 of the corporate governance report.

4.6 FACTORS LIABLE TO HAVE AN IMPACT IN THE EVENT OF A PUBLIC OFFERING

Pursuant to Article L. 225-37-5 of the French Commercial Code, ORPEA makes the following disclosures concerning factors liable to have an impact in the event of a public offering:

- the ownership structure is presented in Chapter 7 of this Registration Document;
- direct and indirect shareholdings of which the Company is aware are presented in Chapter 5 of this Registration Document;
- the Articles of Association contain no restrictions on voting rights, apart from the disqualification of voting rights where the statutory requirements on notifiable interests are not met;
- there are no restrictions in the Articles of Association on transfers of shares, to the Company's knowledge;
- there are no agreements between the shareholders, to the Company's knowledge;
- there are no securities conferring special control rights, apart from shares with double voting rights;
- the applicable rules for appointing and removing members of the Board of Directors are those set out by law;
- the Chief Executive Officer and the Chief Operating Officer receive compensation in the event that they cease their functions as corporate officers who are also executives;
- certain bonds issued contain an early redemption clause at the holders' option in the event of a change in control of the Company (change of majority voting rights or more than 40% of voting rights if no other shareholder holds a higher percentage). All in all, the amount of debt covered by these clauses on 31 December 2017 was €2,916 million;
- the Board of Directors cannot implement the Company's share buyback programme during a public offer for the Company's shares.

4.7 SUMMARY OF CORPORATE OFFICERS' DEALINGS IN ORPEA SHARES IN 2017

To the best of the Company's knowledge, only the following corporate officers effected transactions in ORPEA shares in 2017.

	Acquisitions		Sales	
Corporate officers	**Number of shares**	**Average price per share**	**Number of shares**	**Average price per share**
Yves Le Masne	13,000	€89.3000	0	€ -
Jean-Claude Brdenk	13,000	€89.3000	0	€ -
Xavier Coirbay	100	€101.4775	0	€ -
Brigitte Lantz	100	€105.4000	0	€ -

4.8 APPENDICES

4.8.1 APPENDIX 1: COMPLY OR EXPLAIN TABLE

The below table stipulates the AFEP-MEDEF Code recommendations, which the Company decided not to apply and the reasons for this.

Topic	AFEP-MEDEF recommendation	Explanation
Participation by the director representing employees in the committee responsible for setting remuneration	17.1. The recommendation is for a director representing employees to be a member of the committee responsible for setting remuneration.	The Board of Directors decided not to appoint a director representing employees to the Appointments and Compensation Committee given certain aspects of the Committee's terms of reference. The director representing employees attends meetings of the Appointments and Compensation Committee concerning remuneration issues. In addition, detailed reports are provided on the work, recommendations and opinions of this Committee and they are discussed at meetings of the Board of Directors in which the director representing employees participates.
Severance payments of the Chief Executive Officer and the Chief Operating Officer	Article 24.5.1. They [the conditions under which severance payments are made] must (…) authorise the payment to a senior executive only if their departure is enforced, irrespective of the form of the departure.	Given the length of service with the Group of the Chief Executive Officer and of the Chief Operating Officer, their contribution to the Group's development over several years and their past repudiation of their employment contract, the Board of Directors took the opinion that their severance payments could be payable should they leave of their own volition following a change in control or of strategy.

4.8.2 APPENDIX 2: ADDITIONAL INFORMATION ABOUT CORPORATE OFFICERS

PHILIPPE CHARRIER

DoB: 2 October 1954 (French national).

Philippe Charrier, a graduate of the HEC Paris business school, is a highly experienced healthcare and consumer products executive.

He is currently Executive Chairman of Ponroy Santé, an international group specialising in natural health and beauty products for consumers. Previously, he was CEO of Labco from 2011 to 2015, then Executive Chairman until 2016. From 2006 until 2010, he was CEO of Oenobiol, a European specialist in food supplements for health and beauty. Prior to that, he was CEO of Procter & Gamble France for seven years. He was also Chairman of the Supervisory Board of Spotless until 2010, a director of Lafarge until 2016 and of Médipole until 2017. He is currently a director of Rallye.

Separately, he is the founder and Chairman of Clubhouse France, a not-for-profit organisation helping vulnerable people with mental health conditions to forge stronger social ties and find employment.

Number of shares held: 100 shares

Office held within the Group:

- Director and Chairman of the Board of Directors of ORPEA

Office held outside the Group:

- Chairman and Chief Executive Officer: Alphident, the holding company that manages the Ponroy Santé group
- Director: Rallye

YVES LE MASNE

DoB: 4 October 1962 (French national).

Yves Le Masne has been with the Group for 25 years after training as a computer science engineer and majoring in management control and finance.

His first positions with the Group were Head of Management Control and then Chief Financial Officer. In 2006, he joined the Board of Directors and was appointed as Chief Operating Officer. Since 15 February 2011, he has served as ORPEA's Chief Executive Officer. His long career with the Group has given him extensive knowledge of its activities and organisation.

Number of shares held: 18,779 shares

Office held within the Group:

- Director and Chief Executive Officer: ORPEA
- Chairman of the Supervisory Board: MEDI-SYSTEM (Poland)
- Member of the Supervisory Board: CELENUS KLINIKEN (Germany)
- Chairman of the Board of Directors: ORPEA Belgium (Belgium), ORPEA Iberica (Spain), Union Sanyres (Spain), Sanyres Sur (Spain), Reyes de Aragon (Spain), Residencia Ciutat Diagonal Esplugues (Spain), Centros Residenciales Estremera (Spain), Centro de Mayores Care Extremadura Dos 2002 (Spain), Atirual Inmobiliaria (Spain), Dinmorpea (Spain), Explotacion de Residencia del Real Sitio de San Fernando (Spain), Artevida Centros Residenciales (Spain), Residencial Senior 2000 (Spain), Instituto de Investigaciones Neuropsiquiatricas Doctor Lopez-Ibor (Spain), ORPEA Lopez-Ibor Salud Mental (Spain) and Accomodore Assistencial (Spain)
- Director: SENECURA (Czech Republic), SENECURA Holding (Czech Republic), ORPEA Portugal Immo (Portugal), Niorpea (Portugal), Citorpea (Portugal), Immorpea (Portugal)
- Chairman: CLINEA, La Saharienne, Résidence Saint-Luc, La Clairière, Clinique de Champvert, MDR La Chêneraie, Organis, Société de Champvert, Maja, Résidence La Chêneraie, Immobilière Leau Bonneveine, Mediter, Le Clos Saint-Sébastien 44, SFI France, Douce France Santé, Massilia Gestion Santé, Mex, Hôtel de l'Espérance, La Chavannerie, Holding Mandres, Holding Mieux Vivre, Les Grands Pins, Château de Champlatreux, Emcejidey, Le Clos Saint-Grégoire, Clinique Marigny, Sud-Ouest Santé, Maison de Santé Marigny, Clinique du Parc, Clinique Gallieni, Résidence du Port, Archimède le Village, Clinique Montevideo – SAS La Tourelle, Clinique du Vieux Château d'Oc, TCP DEV, Âge Partenaires, Ap Bretigny, L'Oasis Palmeraie, Bon Air, Résidence l'Ambarroise, Alice Anatole & Cie, Actiretraite Montgeron, Clinique du Cabirol, Familisanté, Amundi Immobilier Novation Santé OPCI, Association Maisons de Retraite de la Picardie
- ORPEA's permanent representative, director: Les Charmilles, Immobilière de Santé
- Permanent representative of CLINEA, director: Sancellemoz
- Permanent representative of CLINEA, Chairman: Société Civile des Praticiens du Grand Pré
- Permanent representative of NIORT 94, Manager: SCS Bordes & Cie
- Manager: Les Matines, Bel Air, SARL 95, SARL 96, La Maison de Louise, Gessimo, La Maison de Lucile, La Maison de Salomé, La Maison de Mathis, La Bretagne, L'Atrium, IDF Résidences Retraite, La Maison d'Ombeline, Domea, Vivrea, ORPEA Dev, SPI, Amarmau, SARL 97, L'Allochon, L'Ombrière, Sogimob, Résidence du Parc de Bellejame, Résidence de Savigny, Résidence de la Puisaye, La Vénitie, France Doyenne de Santé, Douce France Santé Arcachon, Douce France Santé Dourdan, Regina Renouveau, Marc Aurèle Immobilier, DFS Immobilier, CRF Santé, Guéroult, Clinique du Château de Loos, Résidence Les Cèdres, SARL Ancienne Abbaye, Le Verger d'Anna, Les Buissonnets, Parassy, PCM Santé, Le Village de Boissise-le-Roi, Les Jardins d'Escudié, Margaux Pony, Than.Co, De la Maison Rose, Brechet, SNC des Parrans, Les Acanthes, Route des Écluses, Les Rives d'Or, du Château, La Talaudière, ORPEA de Saint-Priest, Balbigny, ORPEA Saint-Just, ORPEA Decaux, La Tour Pujols, Les Rives de la Cerisaie, Val de Seine, Le Clisclouet, Âge d'Or, Gambetta, Croix-Rousse, Les Dornets, Château d'Angleterre, Montchenot, 115 rue de la Santé, L'Abbaye, Les Tamaris, 3 Passage Victor-Marchand, Fauriel, Port Thureau, ORPEA de l'Abbaye, Rue des Maraîchers, Le Bosguerard, Le Vallon, Bel Air, Brest le Lys Blanc, Les Magnolias, Courbevoie de l'Arche, Sainte Brigitte, Les Treilles, Les Favières, IBO, SCI du 12 rue Fauvet, Douarnenez ORPEA, Kods, Slim, Saintes BA, Le Barbaras, La Sélika, JEM2, Château de la Chardonnière, SCI des Ânes, ORPEA de L'Île, La Salvate, SCI de la Drone,

SCI du Caroux, Héliades Santé, Cardiopierre, Super Aix Paul Cézanne, SCI Les Chesnaies, SCI SFI Bellejame, Matisse Santé, SCI du Mont d'Aurelle, Les Orangers, Du Grand Parc, Ansi, BRBT, Du Jardin des Lys, De la Rue de Londres, Château de Loos, Berlaimont, Les Oliviers, SCI Barbusse, SCI Normandy Cottage Foncier, SCI du Bois-Guillaume Rouen, SCI Rezé, Livry Vauban 2020, Sequoia, SCI du Parc Saint-Loup, SCI Larry, SCI Ardennaise, De Peix, Les Jardins de Castelviel, Cerdane, Villa Morgan, SCI de la Marne, SCI Ried Santé, Saint-Victoret, Méditerranée, Officéa Santé, Central & Eastern Europe Care Services Holding (Luxembourg), German Care Services Enterprise (Luxembourg), SENECURA KLINIKEN (Austria), SENECURA SozialzentrumTrofaiach – HausVerbena (Austria), SENECURA SozialzentrumKammern – Haus Viola (Austria), SENECURA SozialzentrumKnittelfeld – HausWegwarte (Austria), SENECURA SozialzentrumSöchau – HausKamille (Austria), SENECURA SozialzentrumFeldbach – HausMelisse (Austria)

Office held outside the Group:

- Manager: SCI Villa de la Maye, SCI Vineuse, SCI Gaoua Beach, SCI Franklin

JEAN-CLAUDE BRDENK

DoB: 6 November 1967 (French national).

Jean-Claude Brdenk has been with the Group for over 20 years, after graduating from business school (ISIG – international management cycle).

In 1997, he joined the Group in an operational management role.

In 2011, he was appointed Chief Operating Officer of ORPEA, responsible for assisting the Chief Executive Officer with managing the Group's facilities, for the latter's term in office.

In 2013, he was appointed as Chief Executive Officer of CLINEA SAS, a wholly-owned subsidiary of ORPEA, which manages healthcare facilities, rehabilitation hospitals and psychiatric hospitals.

Number of shares held: 13,812 shares

Office held within the Group:

- Chief Operating Officer: ORPEA
- Director, Chairman and Chief Executive Officer: Clinique L'Émeraude
- Director: Les Charmilles, Clinique Regina
- Chairman: Clinique du Parc de Belleville, La Jonchère nursing home
- Chief Executive Officer: CLINEA
- Manager: Cuxac, La Pastorale

Office held outside the Group:

None.

LAURE BAUME

DoB: 10 September 1975 (French national).

Laure Baume, a graduate of the HEC Paris business school, has been Chief Consumer Officer of the Moët-Hennessy group since May 2018. She is also a member of the Executive Committee of the Moët-Hennessy group. Previously, she was Executive Director and Customer Director of the ADP Group from December 2014 until May 2018 and served on its Executive Committee. As part of these duties, she served on the Management Board of Société de Distribution Aéroportuaire, Relay@adp and EPIGO joint ventures and on the Board of Directors of Média Aéroports de Paris.

Laure was Club Méditerranée's Marketing Director for France and then Switzerland from 2006 onwards. She was subsequently appointed to the General Management Committee of Club Med as General Manager of the New Markets – Europe-Africa and Strategic Marketing Business Unit.

Laure's career began with US group Kraft Foods (since renamed Mondelez), where she held a series of positions including product manager, category head and brand manager in Paris and New York.

Number of shares held: 50 shares

Office held within the Group:

- Director of ORPEA

Office held outside the Group:

None.

XAVIER COIRBAY

DoB: 16 November 1965 (Belgian national).

Xavier Coirbay is currently a member of SOFINA's Executive Committee and has responsibility for the SOFINA group's investments in hedge funds and growth co-investments. He is also leading SOFINA's expansion into the United States and Asia, which includes supervising the Singapore office.

Prior to joining SOFINA in 1992, he had begun his career as a financial analyst in the asset management department of Générale de Banque, which has since joined the BNP group.

Xavier graduated from the Solvay business school in Brussels (1988), where he also gained a master's degree in the management of tax affairs (1990).

Number of shares held: 100 shares

Office held within the Group:

- Director of ORPEA

Office held outside the Group:

None.

BERNADETTE DANET-CHEVALLIER

DoB: 5 December 1958 (French national).

Bernadette Danet-Chevallier has spent the bulk of her career in the tourism and hospitality industries. She held a number of management positions in finance, sales and marketing at Club Méditerranée, before joining the Accor Group and later being appointed to a senior management role in the independent lodging industry.

Number of shares held: 42 shares

Office held within the Group:

- Director of ORPEA

Office held outside the Group:

None.

FFP INVEST, WITH THIERRY DE PONCHEVILLE AS ITS PERMANENT REPRESENTATIVE

FFP Invest is well known for its selective approach to investing and for the long-term support it provides to companies that lead their industry and boast attractive growth prospects.

Number of shares held: 3,811,353 shares

Office held within the Group:

- Director of ORPEA

Office held outside the Group:

- Chairman and member of the Supervisory Board: Société Financière Guiraud
- Vice-Chairman and Member of the Supervisory Board: IDI
- Member of the Supervisory Board: Zodiac Aerospace, IDI Emerging Markets (Luxembourg)
- Director: SEB, Lapilus II
- Non-voting advisor: Total Eren
- Manager: FFP-Les Grésillons

THIERRY DE PONCHEVILLE

DoB: 6 October 1955 (French national).

Thierry Mabille de Poncheville, FFP Invest's permanent representative on ORPEA's Board of Directors, holds a postgraduate DEA degree in international private law (University of Bordeaux) and a master's degree in international affairs (Pittsburgh University).

He is currently Chief Operating Officer of Établissements Peugeot Frères, the Peugeot family group's holding company and Group Head of Legal Affairs.

He brings the benefit of the diverse expertise he has gained during his career in France and abroad, as well as his in-depth knowledge of the governance rules.

Number of shares held: None

Office held within the Group:

- FFP Invest's permanent representative on ORPEA's Board of Directors

Office held outside the Group:

- Director: SICAV Armene
- Chief Executive Officer: Peugeot Frères Industrie (PFI)
- Chief Operating Officer: Établissements Peugeot Frères, PSP SA group
- Manager: Société Civile du Bannot

JEAN-PATRICK FORTLACROIX

DoB: 14 September 1957 (French national).

Jean-Patrick Fortlacroix is a qualified chartered accountant with a postgraduate DESS degree in banking and finance and a master's degree in accounting and finance. As a chartered accountant and Statutory Auditor, he possesses genuine expertise in real estate, taxation and consolidation, particularly in the healthcare and nursing home sectors.

Number of shares held: 153 shares

Office held within the Group:

- Director of ORPEA

Office held outside the Group:

- Chairman: Add Equation
- Manager: Cadeco

CHRISTIAN HENSLEY

DoB: 11 February 1974 (US national).

Christian Hensley began his career with the investment services division of Salomon Brothers in New York. Subsequently, he spent 11 years working in the private equity and growth capital industry at Charterhouse Group and Planier Capital. In 2012, he joined the Canada Pension Plan Investment Board (CPPIB), where he is now Managing Director and Head of Relationship Investments.

Christian holds a degree from the University of Pennsylvania and an MBA from Harvard Business School.

In the past, he has also been a director of six companies active in business services, healthcare, communications and education.

Number of shares held: 1 share

Office held within the Group:

- Director of ORPEA

Office held outside the Group:

None.

JOY VERLÉ

DoB: 23 May 1979 (British national).

Joy Verlé joined Canada Pension Plan Investment Board (CPPIB) in 2016 as Principal in Relationship Investments, making investments in listed companies and companies soon to be listed.

After graduating from HEC Paris business school in 2003, she initially worked in M&A and capital markets activities for Morgan Stanley. In 2006, she moved to the Bregal Capital fund where she led private equity transactions in the education, renewable energies and healthcare sectors as partner. She has also held directorships in three companies active in the education and renewable energies sectors.

Number of shares held: 1 share

Office held within the Group:

- Director of ORPEA

Office held outside the Group:

- Member of the Supervisory Board: Elis

BRIGITTE LANTZ

DoB: 5 January 1953 (French national).

Brigitte Lantz is a nephrology specialist. She graduated from the Paris Faculty of Medicine, is a practising hospital physician at Necker hospital and holds a postgraduate DEA degree in endocrinology.

Since 2007, Brigitte has been an advisor to the Director-General of the *Assistance publique – Hôpitaux de Paris* public hospital authority for the Paris region. Between 2002 and 2012, Brigitte advised several health ministers (Jean-François Mattei, Philippe Douste-Blazy, Xavier Bertrand) and conducted special assignments for Roselyne Bachelot and François Fillon. Brigitte also served as a government commissioner in 2002, working on the decrees introducing a framework for dialysis in France. Between 1997 and 2002, she was a technical advisor to the Head of Hospitals (Claire Bazy-Malaury), then medical advisor to the Director-General of the Hospital System and Care (Édouard Couty). Prior to that between 1991 and 1997, Brigitte worked in dialysis clinics as an independent physician. From 1979 until 1991, she was international project leader for the Servier pharma group.

Brigitte is also General Secretary of the French kidney foundation and the Princess Margareta of Romania charitable foundation in France.

In addition, she has published various books on medicine.

Number of shares held: 105 shares

Office held within the Group:

- Director of ORPEA

Office held outside the Group:

None.

SOPHIE KALAIDJIAN, DIRECTOR REPRESENTING THE EMPLOYEES

DoB: 8 December 1977 (French national).

As the elected representative of ORPEA's Works Committee, Sophie Kalaidjian has attended the Board of Directors' meetings since January 2015.

Sophie, a lawyer by training, has been a Group employee for nearly 14 years. She is currently CLINEA's Head of Legal Affairs. In this role, she is involved in the development of the Group's hospitals and in monitoring their compliance with the applicable health legislation. The Board's discussions are enhanced by her complementary insights, underpinned by her knowledge of the Group.

Number of shares held: 20 shares

Office held within the Group:

- Director representing ORPEA's employees

Office held outside the Group:

None.

4.8.3 APPENDIX 3: STATUTORY AUDITORS' REPORT ON AGREEMENTS AND COMMITMENTS WITH RELATED PARTIES

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

Annual General Meeting called to approve the financial statements for the financial year ended 31 December 2017

To ORPEA's General Meeting,

In our capacity as ORPEA's Statutory Auditors, we hereby report to you on the agreements and commitments with related parties.

Our role is to report to you, based on the information provided to us, on the essential characteristics and arrangements of the agreements and commitments and on the justification for the Company's entering into the agreements and commitments brought to our attention or that we discovered during our assignment. It is not our responsibility to comment on their effectiveness or appropriateness or to check whether any other such agreements and committee exist. Pursuant to Article R. 225-31 of the French Commercial Code, it is your responsibility to determine whether the agreements and commitments are appropriate and should be approved.

Furthermore, it is our role to report to you, where appropriate, on the disclosures provided for in Article R. 225-31 of the French Commercial Code on the continuing execution during the financial year of agreements and commitments already approved by the Annual General Meeting.

We performed the procedures we deemed necessary in accordance with the professional standards applicable in France for this type of engagement. Those procedures consisted of verifying the consistency of the information provided to us with the source documents.

AGREEMENTS AND COMMITMENTS REQUIRING APPROVAL AT THE ANNUAL GENERAL MEETING

Agreements and commitments authorised and entered into during the financial year now ended

We hereby inform you that we have not been advised of any agreements or commitments that were authorised and entered into during the financial year now ended that require approval at the Annual General Meeting pursuant to Article L. 225-38 of the French Commercial Code.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED AT THE ANNUAL GENERAL MEETING

Agreements and commitments approved in previous financial years

1) Execution of which continued during the financial year now ended

Pursuant to Article R. 225-30 of the French Commercial Code, we were informed of the continued execution during the financial year now ended of the following agreements and commitments approved previously by the Annual General Meeting.

a. Arrangement of unemployment insurance for Jean-Claude Brdenk, Chief Operating Officer
(Authorised by the Board of Directors on 25 April 2013)

Corporate officer involved:
Jean-Claude Brdenk.

Nature and purpose:
Arrangement of an unemployment insurance policy covering Jean-Claude Brdenk, with the corresponding premiums paid by the Company.

Financial impact on FY 2017:
The Company paid premiums amounting to €62,490.20 excl. VAT in FY 2017.

b. Arrangement of unemployment insurance for Yves Le Masne, Chief Executive Officer
(Authorised by the Board of Directors on 29 June 2006)

Corporate officer involved:
Yves Le Masne.

Nature and purpose:
Arrangement of an unemployment insurance policy covering Yves Le Masne, with the corresponding premiums paid by the Company.

Financial impact on FY 2017:
The Company paid premiums amounting to €62,490.20 excl. VAT in FY 2017.

c. Legal and litigation assistance

Director involved:
Alexandre Malbasa.

Nature and purpose:
Litigation and pre-litigation assistance.

Arrangements:
During the financial year (period from 1 January to 22 January 2017), the fees paid by ORPEA to Alexandre Malbasa amounted to €29,934 incl. VAT.

d. Exception to the requirement of continued presence at the Group under the bonus share allocation plan made for executive officers

(Authorised on 10 February 2016)

Corporate officers involved:
- Yves Le Masne, Chief Executive Officer;
- Jean-Claude Brdenk, Chief Operating Officer.

Nature and purpose:
Exception made for executive officers to the requirement of continued presence at the Group under the bonus share allocation plan set up for certain employees and executive officers of ORPEA and affiliated companies as provided for under Articles L. 225-197-1 and L. 225-197-2 of the French Commercial Code.

The Board of Directors decided that the requirement of continued presence at the Company or Group would be deemed to be satisfied for Yves Le Masne and Jean-Claude Brdenk in respect of the first bonus share allotment plan if they meet the same conditions as have been established for them to qualify for their severance payment, that is specifically:
- in the event they are removed from office by the Board of Directors, irrespective of how their duties are terminated, including by dismissal, a request for them to resign or their non-reappointment (specifically excluding their dismissal for gross misconduct); or
- in the event of a change in control (where a change in control is defined as any changes in the Company's ownership status arising from any merger, restructuring, disposal, public tender or exchange offer, subsequent to which a shareholder, be it a legal entity or natural person, acting alone or in concert, directly or indirectly, comes into possession of a proportion of the Company's share capital or voting rights that gives it effective control thereof) or in the Company's strategy initiated by the Board of Directors or the relevant corporate officer.

Arrangements:
13,000 bonus shares (with a value of €799,240) vested with both Yves Le Masne and Jean-Claude Brdenk on 10 April 2017.

2) Not executed in the financial year now ended

In addition, we were informed that the following agreements and commitments approved previously by the Annual General Meeting remained in force but were not executed during the financial year now ended.

a. Agreement on investment arrangements with FFP Invest

(Authorised by the Board of Directors on 11 December 2014)

Director involved:
FFP Invest, represented by Thierry Mabille de Poncheville.

Nature and purpose:
- Right granted to FFP Invest to participate in any future capital increase by the Company, or, if the envisaged transaction does not allow it to subscribe for shares in said capital increase, to restore its percentage interest in the share capital by any and all means to be agreed by the parties;
- Right granted to FFP Invest to obtain the Company's assistance in connection with any major share sales that FFP Invest wishes to carry out. A share sale is deemed to be significant if it consists of more than 10% of the share capital sold to a given person or more than 5% where the shares are sold to various investors. The Company's assistance involves the coordination of the various selling shareholders, and the provision of reasonable assistance to facilitate the sale transactions.

Financial impact on FY 2017:
This agreement did not have any financial impact in the financial year now ended.

b. Agreement on investment arrangements with SOFINA

(Authorised by the Board of Directors on 11 December 2014)

Corporate officers involved:

- Sophie Malarme-Lecloux (until 22 June 2017);
- Xavier Coirbay (from 22 June 2017).

Nature and purpose:

- Right granted to SOFINA to participate in any future capital increase by the Company, or, if the envisaged transaction does not allow it to subscribe for shares in said capital increase, to restore its percentage interest in the share capital by any and all means to be agreed by the parties;
- Right granted to SOFINA to obtain the Company's assistance in connection with any major share sales that SOFINA wishes to carry out. A share sale is deemed to be significant if it consists of more than 10% of the share capital sold to a given person or more than 5% where the shares are sold to various investors. The Company's assistance involves the coordination of the various selling shareholders, and the provision of reasonable assistance to facilitate the sale transactions.

Financial impact on FY 2017:

This agreement did not have any financial impact in the financial year now ended.

c. Agreement on investment arrangements with Jean-Claude Marian

(Authorised by the Board of Directors on 11 December 2014)

Corporate officer involved:

Jean-Claude Marian.

Nature and purpose:

- Right granted to Jean-Claude Marian to participate in any future capital increase by the Company, or, if the envisaged transaction does not allow it to subscribe for shares in said capital increase, to restore its percentage interest in the share capital by any and all means to be agreed by the parties;
- Right granted to Jean-Claude Marian to obtain the Company's assistance in connection with any major share sales that Jean-Claude Marian wishes to carry out. A share sale is deemed to be significant if it consists of more than 10% of the share capital sold to a given person or more than 5% where the shares are sold to various investors. The Company's assistance involves the coordination of the various selling shareholders, and the provision of reasonable assistance to facilitate the sale transactions.

Financial impact on FY 2017:

This agreement did not have any financial impact in the financial year now ended.

d. Investment agreement with CPPIB

(Authorised by the Board of Directors on 11 December 2013)

Corporate officers involved:

- Christian Hensley, Alain Carrier (until 27 April 2017);
- Joy Verlé (from 27 April 2017).

Nature and purpose:

At its meeting on 11 December 2013, the Board of Directors authorised the Company to enter into an investment agreement (the "Investment Agreement") with CPPIB setting forth the principal arrangements for CPPIB's investment in connection with its acquisition of a shareholding in ORPEA.

The principal terms and conditions of the Investment Agreement area as follows:

- The Investment Agreement has a term of 10 years.
- CPPIB may be represented on the Board of Directors by a director provided that CPPIB continues to hold at least 8% of the voting rights and by two directors provided that CPPIB holds at least 16% of the voting rights, with this director or these directors being appointed to the Audit Committee, Appointments and Compensation Committee and any other Committee established.
- Provided that CPPIB holds at least 5% of the Company's share capital, the Company will use its best efforts to ensure it is able to subscribe for any shares issued as part of a capital increase in proportion to its interest in the Company.
- CPPIB may not sell the shares it has acquired or subscribed for in connection with the Acquisition and Capital Increase for a period of eighteen (18) months from the date of the Acquisition. Once this period expires, CPPIB may request the Company's cooperation to complete any sales of significant blocks of shares or private placements.
- CPPIB may continue to acquire the Company's shares directly or indirectly, on- and off-market.

Financial impact on FY 2017:

This agreement did not have any financial impact in the financial year now ended.

e. Supplemental agreement to the Investment Agreement with CPPIB

(Authorised by the Board of Directors on 11 December 2014)

Corporate officers involved:

- Christian Hensley, Alain Carrier (until 27 April 2017);
- Joy Verlé (from 27 April 2017).

Nature and purpose:

Notification of the Company's Board of Directors of any request for assistance from CPPIB in the event of any major sales of its shares:

- upon the Company's receipt of a request for assistance, the Company may inform the Board of Directors if it has previously informed CPPIB of its intention to do so;
- the Company will not inform the Board of Directors if the request for assistance is withdrawn within five working days of CPPIB's receipt of the Company's notification.

Financial impact on FY 2017:

This agreement did not have any financial impact in the financial year now ended.

f. Benefits payable in the event of the cessation of Yves Le Masne's appointment as Chief Executive Officer

(Authorised by the Board of Directors on 25 March 2013 and 25 April 2013)

Corporate officer involved:

Yves Le Masne.

Nature and purpose:

At its meetings on 25 March 2013 and 25 April 2013, the Board of Directors, following the lapse of Yves Le Masne's employment contract, and given his major contribution to the Group's development over several years, authorised the award to Yves Le Masne of a severance payment corresponding to twenty-four (24) months' gross fixed salary and annual bonus (multiple of a monthly average of the remuneration due and paid in respect of the previous two financial years) should his duties as an executive officer come to an end.

A payment of this nature would be made by ORPEA:

- in the event he is removed from office by the Board of Directors, irrespective of how his duties are terminated, including by dismissal, a request for him to resign or his non-reappointment (specifically excluding his dismissal for gross misconduct); or
- in the event of a change in control (where a change in control is defined as any changes in the Company's ownership status arising from any merger, restructuring, disposal, public tender or exchange offer, subsequent to which a shareholder, be it a legal entity or natural person, acting alone or in concert, directly or indirectly, comes into possession of a proportion of the Company's share capital or voting rights that gives it effective control thereof) or in the Company's strategy initiated by the Board of Directors or the relevant corporate officer.

This benefit would be paid by the Board of Directors provided that the average bonus payment in respect of the previous two financial years prior to that in which the relevant corporate officer departs was equal to or over 75% of the target bonus payment (excluding any exceptional remuneration), with this amount being reduced proportionally should the average bonus payment received in the previous two financial years have stood at between 50% and 74% of the target bonus payment excluding any exceptional remuneration and no benefit being paid below a level of 50%.

Special arrangements apply where he departs within 24 months of his appointment.

If Yves Le Masne is entitled to claim a full basic pension within six months of the termination of his duties, he may be denied this payment.

Financial impact on FY 2017:

This agreement did not have any financial impact in the financial year now ended.

g. Benefits payable in the event of the cessation of Jean-Claude Brdenk's appointment as Chief Operating Officer

(Authorised by the Board of Directors on 25 March 2013 and 25 April 2013)

Corporate officer involved:
Jean-Claude Brdenk.

Nature and purpose:
At its meetings on 25 March 2013 and 25 April 2013, the Board of Directors, following the lapse of Yves Le Masne's employment contract, and given his major contribution to the Group's development over several years, authorised the award to Jean-Claude Brdenk of a severance payment corresponding to twenty-four (24) months' gross fixed salary and annual bonus (multiple of a monthly average of the remuneration due and paid in respect of the previous two financial years) should his duties as an executive officer come to an end.

A payment of this nature would be made by ORPEA:

- in the event he is removed from office by the Board of Directors, irrespective of how his duties are terminated, including by dismissal, a request for him to resign or his non-reappointment (specifically excluding his dismissal for gross misconduct); or
- in the event of a change in control (where a change in control is defined as any changes in the Company's ownership status arising from any merger, restructuring, disposal, public tender or exchange offer, subsequent to which a shareholder, be it a legal entity or natural person, acting alone or in concert, directly or indirectly, comes into possession of a proportion of the Company's share capital or voting rights that gives it effective control thereof) or in the Company's strategy initiated by the Board of Directors or the relevant corporate officer.

This benefit would be paid by the Board of Directors provided that the average bonus payment in respect of the previous two financial years prior to that in which the relevant corporate officer departs was equal to or over 75% of the target bonus payment (excluding any exceptional remuneration), with this amount being reduced proportionally should the average bonus payment received in the previous two financial years have stood at between 50% and 74% of the target bonus payment excluding any exceptional remuneration and no benefit being paid below a level of 50%.

Special arrangements apply where he departs within 24 months of his appointment.

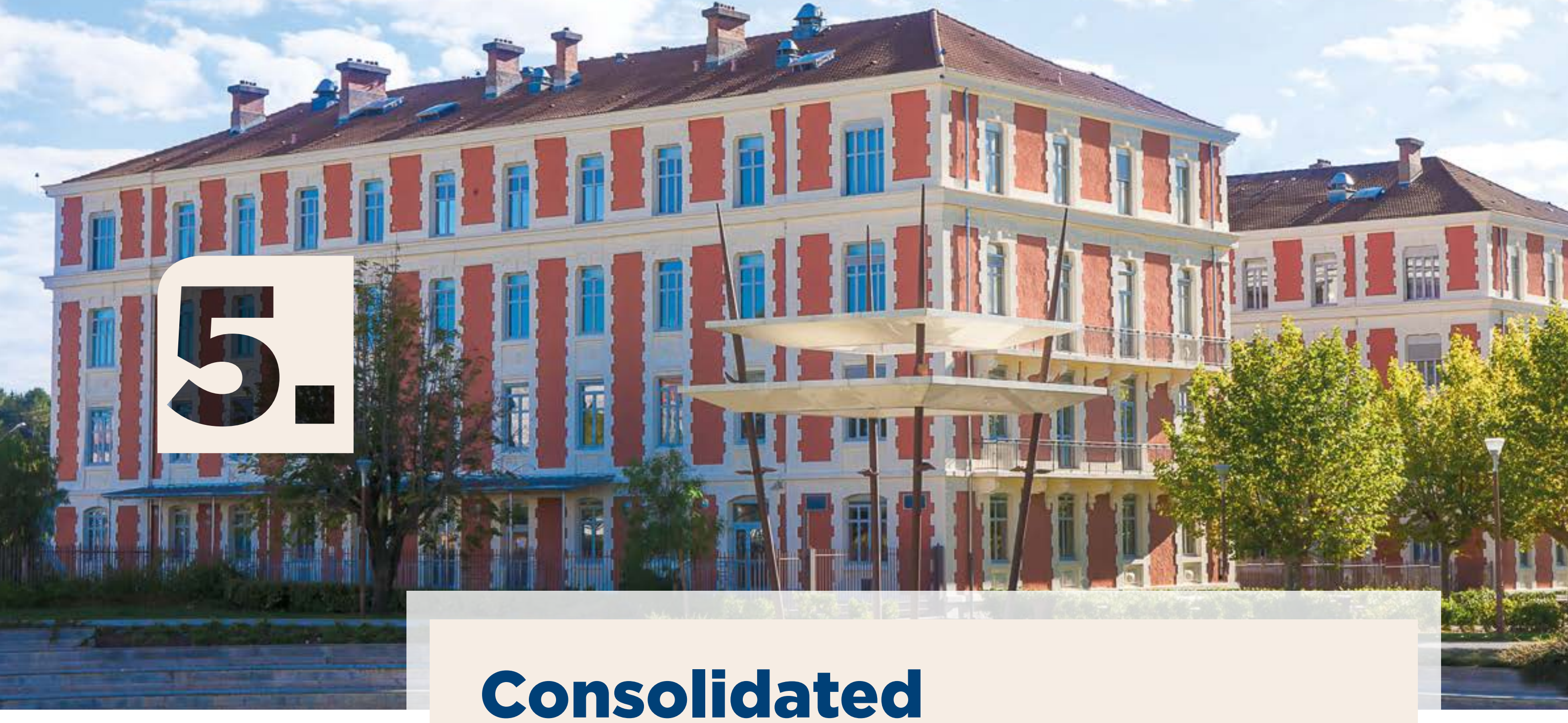
If Jean-Claude Brdenk is entitled to claim a full basic pension within six months of the termination of his duties, he may be denied this payment.

Financial impact on FY 2017:
This agreement did not have any financial impact in the financial year now ended.

Paris and Neuilly-sur-Seine, 7 May 2018

The Statutory Auditors

Saint-Honoré BK&A	Deloitte & Associés
Emmanuel Klinger	Jean-Marie Le Guiner



5.

Consolidated financial statements at 31 December 2017

5.1 CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

CONSOLIDATED INCOME STATEMENTS

(in thousands of euros)	Notes	31/12/2017	31/12/2016*
Revenue		**3,138,234**	**2,841,225**
Purchases used and other external expenses		(861,465)	(817,369)
Staff costs		(1,639,499)	(1,467,301)
Taxes other than on income		(104,449)	(96,555)
Depreciation, amortisation and charges to provisions		(153,309)	(126,456)
Other recurring operating income		22,006	24,036
Other recurring operating expense		(7,167)	(9,510)
Recurring operating profit		**394,351**	**348,070**
Other non-recurring operating income	3.20	115,180	204,981
Other non-recurring operating expense	3.20	(96,150)	(144,975)
Operating profit		**413,381**	**408,075**
Financial income		11,482	13,876
Financial expense		(146,923)	(125,427)
Financial expense arising from early redemption of the ORNANE bonds		(15,254)	
Net finance cost	**3.21**	**(150,695)**	**(111,551)**
Change in FVO**	3.13	(124,023)	(1,800)
Pre-tax profit		**138,663**	**294,724**
Income tax expense	3.22	(84,522)	(85,000)
Income tax expense arising from early redemption of the ORNANE bonds		(21,633)	
Impact of the measurement of deferred taxes at the rate expected to apply	3.22	52,874	80,000
Share in profit/(loss) of associates and joint ventures	3.5	4,421	3,817
Consolidated net profit		**89,803**	**293,541**
Attributable to non-controlling interest		14	9
ATTRIBUTABLE TO OWNERS OF THE PARENT		**89,789**	**293,533**
Net profit attributable to owners of the parent excluding the impact of early redemption of the ORNANE bonds and of the measurement of deferred taxes at the rate expected to apply		197,825	214,713
Number of shares		64,553,123	60,273,691
Basic earnings per share *(in euros)*		1.46	4.26
Diluted earnings per share *(in euros)*		1.46	4.26

* *See Note 1 on the Comparability of the financial statements.*
** *FVO: Fair value of the entitlement to the allotment of shares embedded in the ORNANE bonds.*

The accompanying notes are an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)		31/12/2017	31/12/2016*
Net profit for the year	**a**	**89,789**	**293,533**
Change in exchange differences		(6,446)	
Change in fair value of available-for-sale financial assets			
Cash flow hedges		39,036	(621)
Tax effect on items that may be reclassified to profit or loss		(10,081)	214
Total items that may be reclassified to profit or loss	b	22,509	(407)
Comprehensive income net of items that may be reclassified to profit or loss	**a+b**	**112,298**	**293,126**
Actuarial gains/(losses)		(107)	(2,704)
Revaluation of properties		172,812	60,000
Impact of the measurement of deferred taxes at the rate expected to apply		17,804	22,000
Tax effect on items that may not be reclassified to profit or loss		(44,357)	(19,702)
Total items that may not be reclassified to profit or loss	c	146,152	59,594
Comprehensive income net of items that may not be reclassified to profit or loss	**a+b+c**	**258,450**	**352,720**
Other comprehensive income (net of tax)	**b+c**	**168,661**	**59,187**
COMPREHENSIVE INCOME	**A+B+C**	**258,450**	**352,720**

* *See Note 1 on the Comparability of the financial statements.*

CONSOLIDATED BALANCE SHEET

(in thousands of euros)	Notes	31/12/2017	31/12/2016*
ASSETS			
Goodwill	3.1	1,012,943	982,106
Intangible assets, net	3.2	2,082,066	1,889,176
Property, plant and equipment, net	3.4	4,672,159	3,681,859
Properties under construction	3.4	369,415	442,643
Investments in associates and joint ventures	3.5	110,307	62,235
Non-current financial assets	3.6	39,932	34,248
Deferred tax assets	3.22	36,837	38,424
Non-current assets		**8,323,658**	**7,130,690**
Inventories		8,671	8,369
Trade receivables	3.7	203,964	148,330
Other receivables, accruals and prepayments	3.8	481,586	407,689
Cash and cash equivalents	3.12	613,898	539,924
Current assets		**1,308,119**	**1,104,312**
Assets held for sale	**3.9**	**63,705**	**140,020**
TOTAL ASSETS		**9,695,482**	**8,375,022**
LIABILITIES AND EQUITY			
Share capital		80,691	75,342
Consolidated reserves		2,076,972	1,433,636
Revaluation reserves		467,714	310,410
Net profit for the year		89,789	293,533
Equity attributable to owners of the parent	**3.10**	**2,715,166**	**2,112,921**
Non-controlling interest		213	199
Total consolidated equity		**2,715,379**	**2,113,120**
Non-current financial liabilities	3.12	4,621,575	3,801,254
Change in the fair value of the entitlement to the allotment of shares embedded in the ORNANE bonds	3.13		74,793
Provisions	3.11	122,273	143,108
Post-employment and related benefit obligations	3.11	72,185	63,919
Deferred tax liabilities	3.22	858,288	797,067
Non-current liabilities		**5,674,320**	**4,880,141**
Current financial liabilities	3.12	405,000	418,531
Provisions	3.11	48,706	25,304
Trade payables	3.15	227,206	232,019
Tax and payroll liabilities	3.16	269,967	226,587
Current income tax liabilities	3.16	2,974	15,041
Other payables, accruals and prepayments	3.17	288,225	324,259
Current liabilities		**1,242,077**	**1,241,741**
Debt associated with assets held for sale		**63,705**	**140,020**
TOTAL EQUITY AND LIABILITIES		**9,695,482**	**8,375,022**

* *See Note 1 on the Comparability of the financial statements.*

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Notes	31/12/2017	31/12/2016*
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit of consolidated companies		89,789	293,533
Elimination of non-cash income and expense related to operating activités**		493,678	813
Net interest paid	3.21	(150,695)	111,551
Gains on asset disposals not related to operating activities net of tax		(674)	(19,669)
Gross cash flow from operations generated by consolidated companies		**432,098**	**386,227**
Change in the operating working capital requirement			
■ Inventories		2,157	(188)
■ Trade receivables	3.7	(43,289)	(17,623)
■ Other receivables	3.8	17,712	68,128
■ Tax and payroll liabilities		17,589	14,152
■ Trade payables	3.15	18,407	(43,569)
■ Other payables	3.17	(46,770)	(60,418)
Net cash generated by operating activities		**397,904**	**346,709**
CASH FLOW FROM INVESTING AND DEVELOPMENT ACTIVITIES			
Property investments		(934,034)	(795,032)
Disposals of property assets		31,227	139,378
Other acquisitions and changes		(164,740)	(130,857)
Net cash generated/(used by) investing activities		**(1,067,547)**	**(786,511)**
NET CASH GENERATED/(USED BY) FINANCING ACTIVITIES			
Proceeds from capital increases	3.10		
Dividends paid to shareholders of the parent	3.10	(60,531)	(54,246)
Net cash inflows/(outflows) related to bridging loans and bank overdrafts	3.12	(137,650)	(95,956)
Proceeds from new finance leases	3.12	260,236	228,204
Proceeds from borrowings	3.12	1,390,322	966,645
Repayments of borrowings	3.12	(447,642)	(340,447)
Repayments under finance leases	3.12	(125,678)	(131,848)
Net interest paid and other movements	3.21	(135,440)	(111,551)
Net cash generated/(used by) financing activities		**743,617**	**460,801**
CHANGE IN CASH AND CASH EQUIVALENTS		**73,974**	**20,999**
Cash and cash equivalents at beginning of period		539,924	518,925
Cash and cash equivalents at end of period		**613,898**	**539,924**
Analysis of cash and cash equivalents at end of period		**613,898**	**539,924**
Short-term investments	3.12	45,740	35,816
Cash	3.12	568,158	504,108
Bank overdrafts			

* *See Note 1 on the Comparability of the financial statements.*
** *Chiefly depreciation, amortisation, charges to provisions, deferred taxes, share in income of associates and excess of fair value of assets and liabilities, and the restructuring costs and non-recurring expenses arising from the acquisition of facilities.*

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in thousands of euros except for the number of shares)	Number of shares	Share capital	Share premiums	Revaluation reserves	Other reserves	Net profit for year	Total attributable to owners of the parent	Non-controlling interests	TOTAL
31/12/2015	**60,273,691**	**75,342**	**620,175**	**251,223**	**736,145**	**126,634**	**1,809,520**	**190**	**1,809,710**
Change in fair value of properties				39,342			39,342		39,342
Post-employment benefit obligations				(1,748)			(1,748)		(1,748)
Financial instruments				(407)			(407)		(407)
Exchange differences							0		0
Impact of the measurement of deferred taxes				22,000			22,000		22,000
Changes in fair value recognised directly in equity		**0**	**0**	**59,187**	**0**	**0**	**59,187**	**0**	**59,187**
Appropriation of net profit			(40,069)		112,457	(126,634)	(54,246)		(54,246)
2016 net profit*						293,534	293,534	9	293,542
Exercise of stock options							0		0
Capital increase							0		0
Bonus share allotment plan					8,455		8,455		8,455
Cancellation of treasury shares					(3,527)		(3,527)		(3,527)
31/12/2016	**60,273,691**	**75,342**	**580,106**	**310,410**	**853,530**	**293,533**	**2,112,921**	**199**	**2,113,120**
Change in fair value of properties				128,184			128,184		128,184
Post-employment benefit obligations				165			165		165
Financial instruments				28,955			28,955		28,955
Exchange differences					(6,446)		(6,446)		(6,446)
Impact of the measurement of deferred taxes					17,804		17,804		17,804
Changes in fair value recognised directly in equity		**0**	**0**	**157,304**	**11,358**	**0**	**168,661**	**0**	**168,661**
Reclassifications									
Appropriation of net profit			(32,000)		265,002	(293,533)	(60,531)		(60,531)
2017 net profit						89,789	89,789	14	89,803
Conversion of ORNANE bonds	4,197,182	5,247	402,681				407,928		407,928
Capital increase							0		0
Other					(5,300)		(5,300)		(5,300)
Bonus share allotment plan	82,250	103	(103)		1,698		1,698		1,698
Cancellation of treasury shares							0		0
31/12/2017	**64,553,123**	**80,691**	**950,684**	**467,714**	**1,126,288**	**89,789**	**2,715,166**	**213**	**2,715,379**

* *See Note 1 on the Comparability of the financial statements.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

TABLE OF CONTENTS

Amounts are stated in thousands of euros unless otherwise stated.

The 2017 consolidated financial statements for the ORPEA Group were approved by the Board of Directors on 26 April 2018.

1 SIGNIFICANT ACCOUNTING POLICIES

ORPEA SA is a French company that has its registered office at 12, rue Jean Jaurès, 92800 Puteaux Cedex. It is the parent company of a group that operates nursing homes for the elderly and short-term post-acute and psychiatric hospitals.

1.1 Accounting standards

In accordance with EC Regulation No. 1606/2002 of 19 July 2002, the ORPEA Group has prepared its 2017 consolidated financial statements in accordance with the standards and interpretations published by the International Accounting Standards Board (IASB) as adopted by the European Union and mandatory at the reporting date of these financial statements.

This framework, available on the European Commission's web site (http:// ec.europa.eu/internal_market/accounting/ias_en.htm), consists of the international accounting standards (IAS and IFRS) and IFRIC interpretations (International Financial Reporting Interpretations Committee).

The accounting methods presented below have been applied consistently to all the periods presented in the consolidated financial statements, except for the new standards and interpretations described below.

The new mandatory standards and interpretations for periods beginning on or after 1 January 2017 and applicable to the ORPEA Group are:

- amendments to IAS 12: *Income Taxes*;
- disclosure Initiative (amendments to IAS 7);
- annual improvements to IFRS (2014-2016 cycle).

The application of these new standards and amendments did not have a material impact on the financial statements for the period.

The Group did not apply any new standards or interpretations for mandatory application in periods after 31 December 2017. These standards are:

Standards adopted by the European Union that are not mandatory for the financial year:

- IFRS 15: *Revenue from Contracts with Customers*;
- Clarifications of IFRS 15;
- IFRS 9: *Financial Instruments*;
- IFRS 16: *Leases*;
- amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*;
- amendments to IAS 40: *Transfers of Investment Property*;
- amendments to IFRS 9: *Prepayment Features with Negative Compensation*;
- IFRIC 22: *Foreign Currency Transactions and Advance Consideration*;
- amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*.

Standards not yet adopted by the European Union:

- amendments to IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- IFRIC 23: *Uncertainty over Income Tax Treatments*;
- annual improvements to IFRS (2015-2017 cycle);
- amendment to IAS 19: *Plan Amendment, Curtailment or Settlement*;
- amendments to References to the IFRS Conceptual Framework.

The impact of these standards and amendments is currently being analysed.

The Group does not anticipate that these future standards – other than IFRS 16 – will have a material impact on the consolidated financial statements.

The consolidated financial statements and notes thereto are presented in euros.

Background information on the decision to measure operating properties in accordance with IAS 16

The Group elected with effect from its financial statements for the year ended 31 December 2007 to measure its operating properties, land and buildings using the revaluation model set out in IAS 16, which it believes gives a more accurate view of the value of its property portfolio.

Details of how this model is implemented are provided in Note 1.8.

1.2 Basis of accounting

The financial statements have been prepared using the historical cost basis of accounting. In an exception to this principle, the fully or jointly-owned properties operated by the Group are measured at fair value (see Note 1.8), as are the entitlement to the allotment of shares embedded in the ORNANE bonds (see Note 1.21), derivatives (see Note 1.22) and cash and cash equivalents.

Available-for-sale financial assets are measured at the lower of carrying amount and fair value less costs to sell.

Financial liabilities are measured at amortised cost.

The carrying amounts of hedged assets and liabilities recognised on the balance sheet are adjusted to take account of changes in the fair value of the hedged risks.

1.3 Use of estimates and assumptions

The preparation of financial statements requires management to make certain estimates and use assumptions that affect the reported amounts of assets and liabilities recognised on the consolidated balance sheet, disclosures about those assets and liabilities, the reported amounts of income and expenses on the income statement, and commitments relating to the reporting period. Actual amounts appearing in ORPEA Group's future financial statements may differ from current estimates. Those estimates and assumptions are reviewed regularly.

The assumptions primarily concern:

- calculation of the revalued amount of properties (see Note 3.4);
- inputs used in impairment testing of intangible assets and property, plant and equipment (see Note 3.3);
- provisions for post-employment and lump-sum benefit obligations (see Note 3.11);
- provisions for liabilities and litigation (see Note 3.11);
- financial instruments (see Note 3.14).

1.4 Basis of consolidation

Entities indirectly or directly controlled by the Group are fully consolidated.

Joint arrangements classified as joint operations are consolidated line by line in relation to the Group's actual interest. Joint arrangements classified as joint ventures are accounted for using the equity method.

Entities over which the Group has significant influence, directly or indirectly, are accounted for using the equity method. Significant influence is presumed to exist when the Group owns more than 20% of the voting rights.

These investments in associates and joint ventures are accounted for using the equity method. They are recognised at cost including any goodwill at the date of acquisition.

Their carrying amount reflects the Group's share in its profits subsequent to the acquisition. If the Group's share of their losses exceeds its interest in the entity, the Group discontinues recognising its share of further losses unless it has an obligation to recapitalise the entity or make payments on its behalf.

Investments in associates and joint ventures classified as held for sale are accounted for in accordance with IFRS 5 (see Note 1.11).

Acquisitions and disposals made during the year are included in the consolidated financial statements from the date on which control or significant influence is acquired to the date on which it ceases.

The consolidated financial statements have been drawn up on the basis of the financial statements of all consolidated entities at 31 December.

1.5 Business combinations

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 – *Business combinations*, published in January 2008 by the International Accounting Standards Board (IASB) and adopted early by the Group with effect from 1 January 2009.

Acquisitions of businesses are generally contingent upon the award by the supervisory bodies of a licence to the Group as the new operator. Other conditions precedent may be provided for on a case-by-case basis.

In such cases, the acquisition goes ahead and the newly acquired entity is consolidated once the conditions precedent have been satisfied.

A business combination is accounted for only as of the date on which control is acquired.

If an equity interest in the entity was held prior to acquiring control, it is remeasured at fair value and any difference is recognised in non-recurring operating income or expense.

Transaction costs, such as intermediaries' fees, legal advisory, accounting, appraisal and other fees, and associated taxes and duties, are recognised in non-recurring operating expenses for the period.

Identifiable assets, liabilities and contingent liabilities of the acquired entity which meet the conditions for recognition set out in IFRS 3 are measured at fair value except for assets (or disposal groups) that qualify as non-current assets held for sale under IFRS 5, which are recognised and measured at fair value less costs to sell.

On first-time consolidation of an acquired entity, the Group has up to 12 months in which to determine the fair value of identifiable assets, liabilities and contingent liabilities acquired.

In the light of current regulations, licences to operate hospitals and nursing homes are recognised and measured as identifiable intangible assets at the date of acquisition.

Acquisitions of facilities in Belgium and in Italy have given rise to the recognition of intangible assets since 1 July 2007, as have the new facilities acquired in Spain and Switzerland since 2014 and those acquired in Austria since 2015 and in Poland during 2017.

Operating licences for certain foreign facilities do not meet the requirements for recognition of an identifiable intangible asset and are accordingly included in goodwill.

Properties are measured at fair value taking account of their specific characteristics.

The Group also analyses any risks and obligations (employee-related, tax, property-related and other) that arise during the due diligence process for acquisitions.

The difference between the cost of acquisition and the Group's interest in the fair value of acquisition-date amounts of the identifiable assets acquired and the liabilities assumed is recognised as goodwill. Goodwill, measured in the functional currency of the acquired entity, is recognised as an asset on the balance sheet. It is not amortised but tested for impairment whenever there is an indication of impairment and at least once a year at the reporting date (see Note 1.9 below). Any impairment losses are recognised in Other non-recurring operating expenses. Goodwill impairment cannot subsequently be reversed under any circumstances.

If the fair value of assets, liabilities and contingent liabilities acquired is higher than the cost of the acquisition, the negative goodwill is recognised immediately in profit or loss under Other non-recurring operating income (see Note 3.20).

Since the revised IFRS 3 was adopted, non-controlling interests in consolidated subsidiaries may be measured either at fair value or at their proportionate share of the fair value of the acquiree's identifiable net assets.

This choice is available on a transaction-by-transaction basis.

Goodwill arising on entities accounted for by the equity method is included in Investments in associates and joint ventures.

Upon disposal of a subsidiary, jointly-controlled entity or facility, the corresponding goodwill is included when determining the gain or loss on disposal recorded under non-recurring operating profit/loss.

1.6 Translation of the financial statements of foreign entities

The consolidated financial statements are prepared in euros.

Financial statements of subsidiaries with a different functional currency are translated into euros as follows:

- at the official rate at the reporting date for assets and liabilities;
- at the average rate for the period for income statement and cash flow statement items.

Any exchange differences resulting from the application of these exchange rates are recognised under Foreign currency translation reserves, a component of consolidated reserves in consolidated equity.

The functional currency of the Swiss, Polish, Czech and Chinese subsidiaries is not the euro.

1.7 Intangible assets

Intangible assets mainly comprise licences to operate nursing homes and post-acute, rehabilitation and psychiatric hospitals in France, Belgium, Switzerland, Spain, Italy, Austria and Poland.

These licences are considered to have an indefinite useful life, which is consistent with the Group's leading position within the industry. This approach is based on the following observations, backed up by the Group's past experience:

- the probability of the licences being withdrawn or not renewed is low, given that the Group adheres strictly in the management of its facilities to the guidelines and standards set by the various healthcare authorities;
- the costs incurred in maintaining licences are not material.

These intangible assets are recognised at cost. Cost is equal to the price actually paid when acquired separately or at fair value when acquired as part of a business combination.

Fair value is estimated based on the type of operation – between 100% and 125% of annual revenue in France, between 80% and 100% in Belgium and Switzerland, between 80% and 125% in Italy and Spain, and between 50% and 100% in Austria and the Czech Republic, and 100% in Poland.

The annual revenue used to establish the value of assets is adjusted based on historical data and the following assumptions: licensed capacity of the facility at the date of acquisition, as well as the applicable accommodation and per diem rates; occupancy rate of the facility (projected to be 100%), number of private rooms to be available and the corresponding rates; and, for residential facilities for the elderly, the corresponding medical care or dependency care allowances, as applicable. For facilities in a start-up phase, the revenue applied is that projected at maturity.

The multiples used are representative of comparable market transactions.

Intangible assets with an indefinite useful life are not amortised but tested for impairment at each reporting date or whenever there is an indication that they might be impaired. If their recoverable amount is lower than their carrying amount, an impairment loss is recognised in profit or loss under Other non-recurring operating expense.

The amortisation period applied to other intangible assets ranges between one and ten years.

1.8 Property, plant and equipment

Property, plant and equipment mainly comprises land, buildings, fixtures and fittings, and equipment.

The Group's operating properties are either acquired, built or redeveloped by the Group.

As part of its asset management policy, the Group regularly sells operating properties it owns. These sales are carried out in a block or in lots and are then leased back from the new owner.

Disposals may include properties owned and operated by the Group for several years and also properties that have been recently acquired, redeveloped or built.

Properties retained by the Group are generally held under finance leases.

Properties that the Group intends to sell are classified as Assets held for sale.

Measurement of property, plant and equipment

Property, plant and equipment other than operating properties are measured at its cost of acquisition or production less accumulated depreciation and any impairment, in line with the standard treatment under IAS 16 – *Property, Plant and Equipment*.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset, as required by IAS 23 – *Borrowing Costs*.

Revaluation of operating properties in service

Properties held mainly under finance leases, comprising land and buildings and operated by the Group are measured at fair value in accordance with IAS 16.31 – *Property, Plant and Equipment*.

The fair value of the properties is reviewed by external professionally qualified appraisers. Barring significant changes in market conditions, all the properties included in the Group's portfolio are reviewed over a three-year period, with new additions being reviewed at the end of the corresponding period.

Fair value is calculated based on location, type of operation and operating conditions.

The revalued amount of each property is determined by capitalising an estimated market rent for each facility based on industry norms. The capitalisation rates applied depend on location, type of operation and form of ownership.

The difference between cost and fair value is recognised under Revaluation reserves net of taxes in equity.

If the revalued amount of a property, land and buildings falls below cost, an impairment loss is recognised in profit or loss under Other non-recurring operating expense.

Fair value adjustments to buildings are amortised over the residual life of each facility.

Depreciation of property, plant and equipment

The Group depreciates property, plant and equipment on a straight-line basis. Depreciation is calculated based on the expected useful life of each asset or each of its components having different useful lives in line with the following criteria:

- buildings, fixtures and fittings: 12 to 60 years;
- plant and equipment: 3 to 10 years;
- other: 3 to 10 years.

Property, plant and equipment is tested for impairment whenever there is there is an indication of impairment. Any impairment losses are recognised in profit or loss under Other non-recurring operating expense.

Proprietary property development projects carried out by the Group

Under its expansion policy and in order to meet its quality standards, the Group manages most of its own operating property development or redevelopment projects.

These properties are either kept by the Group or sold to investors.

The cost of new or redeveloped properties includes the cost of purchasing the land, any buildings to be redeveloped and all development and redevelopment costs. These include direct production costs and borrowing costs directly attributable to the production of the asset in accordance with IAS 23.11 – *Borrowing costs*.

Properties sold off-plan to investors are accounted for using the percentage of completion method and therefore comply with IFRIC 15.

The degree of completion is determined based on accrued costs after validation by the project manager and corresponds to the technical advancement in terms of the overall costs of the project.

Marketing expenses directly attributable to assets sold off-plan are recognised as assets under property, plant and equipment in progress and are charged back in proportion to the percentage of completion.

Progress payments received on off-plan sales are deducted from the value of the project.

Gains or losses on sales of properties are recorded under Other non-recurring operating income and expense to keep them separate from ordinary revenue.

Leases

In accordance with IAS 17, leases are classified as finance leases when substantially all of the risks and rewards incidental to ownership of the asset are transferred to the lessee.

All other lease agreements are classified as operating leases.

For operating leases, the lease payments (with the exception of service costs such as insurance and maintenance) are expensed on a straight-line basis, as long as no other systematic basis is more representative of the time pattern of the user's benefit, even if the payments are not made on this basis.

Only leasebacks followed by the end of an operating lease give rise to the recognition of gains or losses on disposals that are accounted for under Other non-recurring operating income and expense.

1.9 Impairment of assets

In accordance with IAS 36 – *Impairment of Assets*, the Group assesses the recoverability of its non-current assets as follows:

- property, plant and equipment, and intangible assets with a finite useful life are tested for impairment if there is an indication of impairment;
- intangible assets with an indefinite useful life and goodwill are tested for impairment whenever there is an indication of impairment and at least once a year at the reporting date.

Impairment testing consists in comparing the net carrying amount with the higher of the following two values: fair value less costs to sell, and value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The discount rate used is equal to the Group's weighted average cost of capital, which is representative of the sector rate (see Note 3.3).

Any impairment of a cash generating unit (CGU), or group of CGUs in the case of foreign operations, first reduces the carrying amount of any goodwill allocated to the cash generating unit and then reduces the carrying amounts of the other assets of the unit (group of units) pro rata on the basis.

Each nursing home or hospital represents a CGU. A CGU's main assets are goodwill where goodwill is allocated to the CGU, intangible assets (operating licences) and any operating properties measured at fair value (see Note 1.8).

1.10 Non-current financial assets

Investments not consolidated because they do not satisfy the materiality thresholds are measured at cost.

Investments not consolidated because of the Group's percentage holding are recognised as available-for-sale financial assets. They are measured at cost on initial recognition and subsequently at fair value if this can be determined reliably.

Otherwise they are measured at cost less any accumulated impairment. In this case, their recoverable amount is determined on the basis of the Group's share in the entity's net assets, its expected future profitability and growth outlook.

Changes in fair value are recognised as a separate component of equity until the investment is sold. When the impairment is material or prolonged, it is recognised in net finance costs.

Loans held at amortised cost are written down when there is objective evidence of impairment due to the credit risk.

1.11 Non-current assets held for sale and discontinued operations

In accordance with IFRS 5, assets or groups of assets (disposal groups) – particularly properties or facilities which the Group intends to sell within a period of 12 months – are classified as Non-current assets held for sale and discontinued operations. This excludes buildings held under finance leases.

This reclassification occurs if the sale is highly probable and the non-current asset or disposal group held for sale meets the criteria for such classification and, crucially, is immediately available for sale.

These assets are measured at the lower of their carrying amount and fair value less costs to sell.

The carrying amount for operating properties is the latest fair value determined in accordance with IAS 16.31 (see Note 1.8).

1.12 Trade receivables

Trade receivables are initially stated at their nominal value. This method is considered to be the best estimate of their initial fair value. An impairment loss is recognised when there is objective evidence that the Group may be unable to recover the full amount on the original terms and conditions of the transaction. The age of a receivable and failure to pay within the usual payment period are indicators of impairment.

The impairment loss is equal to the present value of the cash flows considered to be unrecoverable. Based on past experience, impairment rates are typically as follows:

- public health insurance:
  - receivables more than 27 months past due: 100%
  - receivables between 24 and 27 months past due: 75%,
  - receivables between 18 and 24 months past due: 50%,
  - receivables between 12 and 18 months past due: 25%;
- private health insurance:
  - receivables more than 18 months past due: 100%,
  - receivables between 12 and 18 months past due: 75%;
- patients:
  - receivables more than 6 months past due: 100%;
- residents:
  - receivables less than 6 months pas due in dispute: 20%,
  - receivables between 6 and 12 months past due: 50%,
  - receivables more than 12 months past due: 100%;
- residents receiving social security support:
  - receivables more than 30 months past due: 50%,
  - receivables more than 36 months past due: 100%.

Receivables due in more than one year are discounted if the impact is material.

Trade receivables may be sold to banks to raise financing. An analysis is performed to assess whether the risks and rewards incidental to ownership of these receivables are transferred. If this review shows that substantially all these risks and rewards have been transferred, the trade receivables are derecognised, and any rights created or retained in connection with the transfer are recognised. Otherwise, the trade receivables continue to be recognised, and a financial liability is recognised in respect of the amount transferred.

1.13 Other receivables, payables, accruals and prepayments

Current assets and current liabilities mainly comprise assets and liabilities related to development and property disposals, as well as current accounts vis-à-vis associates and related parties.

1.14 Deferred taxes

Deferred taxes arising on temporary differences between the tax base and accounting base of consolidated assets and liabilities are recognised using the liability method at the rates enacted or substantially enacted at the reporting date. The tax rates used are based on the expected timing of the reversal of the temporary differences, tax losses and other tax credits. The impact of a change in tax rate is recognised in profit or loss for the period, or in equity, depending on the item to which it relates.

Most deferred taxes arise from the revaluation of operating licences and fully or jointly-owned operating properties.

Deferred tax assets arising on tax loss carryforwards are recognised if there is a reasonable probability that they will be used in the foreseeable future.

Deferred taxes are not discounted.

A provision is set aside for any taxes that may be due by the Group on dividend payments made by subsidiaries if the dividend payment has been formally agreed at the reporting date.

Deferred tax assets and liabilities are netted by tax entity when they are expected to reverse in the same period.

Current and/or deferred taxes are recognised in profit or loss for the period except when they arise on a transaction or event recognised directly in equity.

1.15 Local Economic Contribution (CET, France)

The *Cotisation Foncière des Entreprises* (CFE) levy is recognised as a recurring operating expense.

The *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE value-added levy) is recognised as an income tax pursuant to IAS 12.

1.16 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and at bank and short-term investments that are highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. Financial assets and liabilities may be offset subject to the conditions laid down in IAS 32.

Cash and short-term investments comprise balances on bank accounts, cash in hand, term deposits of less than three months and debt securities traded on official markets that are subject to an insignificant risk of a fall in value, which are measured at fair value, with any changes recognised in profit or loss.

1.17 Treasury shares

ORPEA SA shares held by the parent company are recognised at cost as treasury shares and deducted from equity until such time as they are sold.

Gains or losses on the sale of treasury shares are added to or deducted from consolidated reserves net of tax.

1.18 Stock option and bonus share allotment plans

Stock options are granted to certain Group employees.

In accordance with IFRS 2 – *Share-based Payment*, plans set up after 7 November 2002 are measured at the date of grant and are recognised under staff costs over the period during which rights vest with beneficiaries. This expense, which represents the option's market value at its date of grant, is recognised as an increase in equity.

The fair value of options and rights is determined by actuaries using pricing models based on the characteristics of the plan and market data at the date of grant.

1.19 Post-employment and other employee benefit obligations

In France, the Group is governed by the single FHP collective bargaining agreement of 18 April 2002 for the private healthcare sector. This provides for payment of a lump-sum benefit upon retirement based on the employee's length of service, grade and salary at retirement date.

No other post-employment or long-term benefits are granted to employees in service.

Outside France, the Group applies the relevant local provisions in each country. It operates defined benefit pension plans only in Switzerland, Austria and for certain facilities in Germany.

The Group's post-employment benefit obligations are calculated using the projected unit credit method on the basis of actuarial estimates. Actuarial assumptions include staff turnover, salary increases, inflation and life expectancy. They are presented in Note 3.11.

The actuarial obligation is provided for less any plan assets measured at fair value.

Cumulative actuarial gains and losses arising from experience adjustments or the effects of changes in financial, economic or demographic assumptions (change of discount rate, annual salary increases, length of service life, etc.) are recognised immediately in the Group's obligation with a corresponding amount in a separate component of equity (Other reserves), in accordance with IAS 19 (revised).

Current and any past service cost is recognised as an operating expense.

Interest cost and expected return on plan assets, calculated at the same rate, are recognised in net finance cost.

Tax credit for competitiveness and employment (CICE)

The 3rd Amending Finance Law for 2012 introduced the CICE (tax credit for competitiveness and employment) from 1 January 2013. Pursuant to IAS 19 – *Employee Benefits*, the CICE was recognised as a deduction from staff costs.

1.20 Provisions

The Group sets aside a provision where it has a present obligation arising from a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of this obligation can be estimated reliably.

Where this liability is not probable, and the amount of the obligation cannot be measured sufficiently reliably, but an outflow may be required to settle the obligation, the Group recognises a contingent liability.

Provisions related to the operating cycle are classified as current regardless of their probable reversal date. They primarily concern employee-related risks and are estimated by the employee affairs department based on the Group's exposure and the status of any proceedings.

Provisions that are not directly related to the operating cycle and have a probable reversal date of over one year are classified as non-current. They mainly comprise provisions for litigation, taxes and related items, onerous contracts and restructuring.

1.21 Financial liabilities

Financial liabilities are recognised at nominal value net of any associated transaction costs, which are deferred over the life of the liability in net finance costs using the effective interest method.

If future interest expense is hedged, the financial liability is still measured at amortised cost, and the change in fair value of the effective portion of the hedging instrument is recognised in equity.

Changes in fair value of derivatives not held for hedging and the ineffective portion of hedging instruments are recognised in net finance cost.

Net debt comprises short and long-term financial liabilities less the value of short-term investments and cash.

It includes property bridging loans, which are bank loans allocated specifically to finance operating properties recently acquired or under construction.

Hybrid bonds are accounted for in accordance with IAS 32 and IAS 39 – *Financial Instruments*.

1.22 Financial instruments and derivatives

The Group uses various financial instruments to hedge its exposure to interest rate and currency risk. They are over-the-counter instruments arranged with first-rate counterparties.

All derivatives are recognised under Other current assets and liabilities and measured at fair value at the transaction date (see Note 3.14.1– Interest rate risk management strategy and Note 3.14.2– Currency risk).

1.23 Revenue

Revenue mainly comprises payment for accommodation and care services provided to residents and patients. This revenue is recognised when the service is provided.

The only seasonal effect is the number of business days, which is higher in the second half of each calendar year than the first.

1.24 Key income statement headings

The Group's main business is the operation of long-term and short-term care facilities.

Recurring operating profit derives from these operations at these facilities.

Other non-recurring operating income and expense comprises:

- income and expenditure relating to the Group's property transactions: disposals of properties, development costs and any impairment losses;
- the Group's development expenses and redevelopment costs for recently acquired facilities;
- income and expenses related to business combinations: transaction costs, negative goodwill;
- impairment of intangible assets and goodwill.

1.25 Earnings per share

Basic earnings per share are calculated using the weighted average number of shares in issue during the year, less any treasury shares held and deducted from equity.

Diluted earnings per share take account of all potentially dilutive instruments, such as options, warrants and convertible bonds. Options and warrants are dilutive when their exercise price is lower than the market price. In this case, the assumption is that proceeds from the exercise of rights will be used in priority to buy back shares at the market price. The share buyback method is used to calculate the shares that are "not bought back", and these are added to the number of ordinary shares outstanding to determine the dilutive impact.

1.26 Statement of cash flows

The consolidated statement of cash flows is prepared using the indirect method: it presents a reconciliation of operating profit to cash generated from operating activities.

Given that the Group funds a significant part of its construction projects with property leases, cash flow from financing activities includes advance payments by lessors and their repayments under Proceeds from new finance leases and Repayments under finance leases.

Cash and cash equivalents at the beginning and end of the period include cash and other short-term investments, less any overdraft facilities that are not considered as bridge financing for operating properties recently acquired or under construction or redevelopment.

1.27 Segment information

Segment information is provided for the segments used by management to analyse its activity and monitor its development. The operating segments are presented by geographical area, i.e. France and International, which includes Belgium, Spain, Italy, Switzerland, Austria, Germany, the Czech Republic, Poland and China (see Note 3.19).

1.28 Organic growth

The Group regularly publishes the organic growth rate in its revenue.

Organic growth in revenue reflects the following factors:

- the year-on-year change in the revenue of existing facilities as a result of changes in their occupancy rates and per diem rates;
- the year-on-year change in the revenue of redeveloped facilities or those where capacity has been increased in the current or year-earlier period;
- revenue generated in the current period by facilities created in the current or year-earlier period, and the change in revenue at recently acquired facilities by comparison with the previous equivalent period.

1.29 Growth by acquisition

This includes acquisitions of facilities in operation or under development (directly or indirectly through companies).

1.30 Comparability of the financial statements

Adjustment of the provisional allocation of Sanyres' goodwill during the window period

IFRS 3 allows adjustments to be made to the items initially recognised as a result of a business combination for a period of up to one year from the acquisition date when new information comes to light about facts and circumstances that existed at the acquisition date. These adjustments are made retrospectively as if they had been made at the acquisition date.

ORPEA took control of the Sanyres group on 1 July 2016. Based on the allocation of the cost of acquisition to the assets acquired and liabilities assumed, negative goodwill of €15 million was recognised provisionally in the financial statements for the financial year ended 31 December 2016.

The initial recognition of this business combination was incomplete, pending an external appraisal of the real estate assets held by Sanyres. That appraisal was conducted during 2017, leading to a €49 million remeasurement of the value of these assets in respect of the cost of the land.

In accordance with these standards, the comparative income statement and balance sheet at 31 December 2016 were adjusted as follows:

Consolidated income statement

(in millions of euros)	Notes	31/12/2016 Reported	31/12/2016 IFRS 3	31/12/2016 Adjusted
Revenue		**2,841**		**2,841**
Purchases used and other external expenses		(817)		(817)
Staff costs		(1,467)		(1,467)
Taxes other than on income		(97)		(97)
Depreciation, amortisation and charges to provisions		(126)		(126)
Other recurring operating income		24		24
Other recurring operating expense		(10)		(10)
Recurring operating profit		**348**	**-**	**348**
Other non-recurring operating income	3.20	168	37	205
Other non-recurring operating expense	3.20	(145)		(145)
Operating profit		**371**	**37**	**408**
Financial income		14		14
Financial expense		(125)		(125)
Net finance cost	**3.21**	**(112)**	**-**	**(112)**
Change in FVO*	3.13	(2)		(2)
Pre-tax profit		**258**	**37**	**295**
Income tax expense	3.22	(85)		(85)
Impact of the measurement of deferred taxes at the rate expected to apply	3.22	80		80
Share in profit/(loss) of associates and joint ventures	3.5	4		4
Consolidated net profit		**256**	**37**	**294**
Attributable to non-controlling interest		0		0
ATTRIBUTABLE TO OWNERS OF THE PARENT		**256**	**37**	**294**
Net profit attributable to ORPEA's shareholders excluding net change in FVO*		258	37	295

* *FVO: Fair value of the entitlement to the allotment of shares embedded in the ORNANE bonds.*

Consolidated balance sheet

(in millions of euros)	Notes	31/12/2016 Reported	Adjustments IFRS 3	31/12/2016 Adjusted
ASSETS				
Goodwill	3.1	982		982
Intangible assets, net	3.2	1,889		1,889
Property, plant and equipment, net	3.3	3,632	49	3,682
Properties under construction	3.3	443		443
Other non-current assets		135		135
Non-current assets		**7,081**	**49**	**7,131**
Current assets		**1,104**		**1,104**
Assets held for sale		**140**		**140**
TOTAL ASSETS		**8,326**	**49**	**8,375**
LIABILITIES AND EQUITY				
Share capital		75		75
Consolidated reserves		1,434		1,434
Revaluation reserves		310		310
Net profit for the year		256	37	294
Equity attributable to owners of the parent	**3.9**	**2,076**	**37**	**2,113**
Non-controlling interest		0		0
Total consolidated equity		**2,076**	**37**	**2,113**
Non-current financial liabilities and provisions		4,083		4,083
Deferred tax liabilities	3.21	785	12	797
Non-current liabilities		**4,868**	**12**	**4,880**
Current liabilities		**1,242**		**1,242**
Debt associated with assets held for sale		**140**		**140**
TOTAL EQUITY AND LIABILITIES		**8,326**	**49**	**8,375**

2 SCOPE OF CONSOLIDATION

2017 revenue rose by 10.5% compared with 2016, representing an increase of €297 million.

The Group has expanded through a combination of organic growth and acquisitions.

Organic growth in revenue was 5.4% during 2017.

Harnessing this growth pipeline of beds under construction and redevelopment, the Group opened 1,864 new beds in 2017 at 15 facilities and extensions of facilities.

Around one-third of the new beds is located in France where new facilities meeting the highest standards of care and accommodation were opened, and smaller facilities were merged and extended.

Belgium accounted for approximately 30% of new openings during the year, with new facilities established in Antwerp, Ardooie and Liège. In Germany, the Group opened four new facilities, making up 20% of the total.

Lastly, the remaining 17% comprised one new facility at Kolin in the Czech Republic, one facility on Lake Maggiore in Italy and extensions in Austria.

ORPEA also continued to pursue its policy of acquisitions by purchasing facilities in operation or at the proposal stage:

- two facilities (42 beds) and assumption of full control of the AP5 group with its 111-bed hospital in France;
- a facility located at Mestre (120 beds) in Italy;
- a hospital in Madrid (67 beds) in Spain;
- the Dr. Dr. Wagner sub-group with its 18 facilities (1,812 beds), the Fischl sub-group with its two facilities (289 beds) and a 60-bed facility in Austria;
- the Anavita sub-group of six facilities (932 beds), the Grand Park sub-group with its four facilities (597 beds) and a 136-bed facility in the Czech Republic;
- three nursing home businesses (163 beds) in Switzerland.

ORPEA also stepped up its development by acquiring a 49% interest in a Dutch sub-group and a German sub-group, as well as purchasing a 25% interest in an Austrian sub-group.

ORPEA has continued its development by forming a joint venture with the SIS group to establish a presence in Brazil and Portugal.

Lastly, the Group purchased, directly or via companies, specific assets necessary for its expansion, such as intangible rights and operating properties.

Based on provisional estimates of the fair value of assets acquired, the total investment at their acquisition date breaks down as follows:

2017	Number of facilities	Number of beds	Goodwill *(in millions of euros)*	Operating intangible assets *(in millions of euros)*	Properties *(in millions of euros)*	Contingent liabilities *(in millions of euros)*	Other assets & other liabilities* *(in millions of euros)*	Deferred income tax *(in millions of euros)*	Cost *(in millions of euros)*
France	3	153	14	8	0	0	(5)	(2)	16
International	37	4,176	36	136	234	(24)	(127)	(44)	159
Germany									
Austria	21	2,161	6	84	158	(13)	(72)	(29)	88
Belgium									
Spain	1	67	5	6	13	(1)	1	(4)	18
Italy	1	120		5	19		(20)	(2)	1
Poland									
Switzerland	3	163		14		(8)		(1)	
Czech Republic	11	1,665	25	27	44	(1)	(36)	(8)	52
TOTAL	**40**	**4,329**	**50**	**144**	**234**	**(24)**	**(132)**	**(46)**	**175**

* *O/w intangible concession assets, where appropriate.*

Other non-recurring income and expense related to acquisitions are presented in Note 3.20.

In 2016, total investments at the date of consolidation were:

2016	Number of facilities	Number of beds	Goodwill *(in millions of euros)*	Operating intangible assets *(in millions of euros)*	Properties *(in millions of euros)*	Contingent liabilities *(in millions of euros)*	Other assets & other liabilities* *(in millions of euros)*	Deferred income tax *(in millions of euros)*	Cost *(in millions of euros)*
France	6	443	19	31	31	(4)	(34)	(10)	34
International	59	7,327	107	85	119	(44)	(123)	(10)	106
Germany	25	2,487	50		0	(16)	(3)		31
Austria	5	343		14			(6)	(4)	4
Belgium				1			0	(1)	
Spain	21	3,762		67	102	(14)	(113)	5	22
Italy									
Poland	7	704	11		17		(5)	(3)	20
Switzerland	1	31	46	3		(14)	3	(7)	29
Czech Republic									
TOTAL	**65**	**7,770**	**127**	**115**	**150**	**(48)**	**(157)**	**(20)**	**140**

* *O/w €44 million in intangible concession assets.*

3 COMMENTARY ON THE FINANCIAL STATEMENTS

3.1 Goodwill

The main movements during the period were as follows:

	France	International	TOTAL
Net goodwill at beginning of period	379,979	602,128	982,106
Business combinations	13,684	36,002	49,686
Adjustments to previous goodwill and deconsolidations	(642)	(9,483)	(10,125)
Exchange differences		(8,725)	(8,725)
NET GOODWILL AT END OF PERIOD	**393,021**	**619,923**	**1,012,943**

The business combinations include the provisional allocation of the goodwill arising on the acquisition of the sub-groups in Austria, the Czech Republic and Spain.

The following groups of CGUs account for significant goodwill:

	31/12/2017	31/12/2016
Méditer Mieux Vivre sub-group acquired in 2010	87,010	87,652
Senevita sub-group	60,245	61,349
German operations	397,728	395,420
Other	467,961	437,684
NET GOODWILL AT END OF PERIOD	**1,012,943**	**982,106**

No other group of CGUs accounted for more than 5% of total goodwill at the end of the period.

3.2 Intangible assets

Gross intangible assets and accumulated amortisation break down as follows:

	31/12/2017			31/12/2016		
	Gross	Amort. Prov.	Net	Gross	Amort. Prov.	Net
Operating licences	2,033,181	8,685	2,024,495	1,884,042	8,229	1,875,812
Advances and downpayments	2,642		2,642	2,278		2,278
Other intangible assets	111,159	25,454	85,705	107,606	23,130	84,476
Intangible assets held for sale	(30,776)		(30,776)	(73,391)		(73,391)
TOTAL	**2,116,205**	**34,139**	**2,082,066**	**1,920,535**	**31,359**	**1,889,176**

At 31 December 2017, operating licences include the intangible operating assets considered to have an indefinite useful life in France, Belgium, Italy, Spain, Switzerland, Austria, the Czech Republic and Poland.

Intangible assets held for sale correspond to operating licences held for facilities earmarked for sale within 12 months.

Groups of CGUs with material operating licences were as follows:

	31/12/2017	31/12/2016
Méditer Mieux Vivre sub-group acquired in 2010	195,153	195,850
Senevita sub-group	108,032	102,056
Senecura sub-group	123,989	123,989
Other	1,597,321	1,453,917
NET OPERATING LICENCES AT END OF PERIOD	**2,024,495**	**1,875,812**

No other group of CGUs accounted for more than 5% of total operating licences at the end of the period.

Amortisation of other intangible assets is recognised in profit or loss under Depreciation, amortisation and charges to provisions.

Impairment losses are recognised in Other non-recurring operating expense.

The following table shows movements in intangible assets (net) by category:

	Operating licences	Advances and downpayments	Other intangible assets	Intangible assets held for sale	TOTAL
At 31 December 2015	**1,782,064**	**2,235**	**40,309**	**(73,391)**	**1,751,217**
Increase	13,082	24	4,360		17,465
Decrease	(37,244)		(861)		(38,105)
Amortisation and charges to provisions			(4,663)		(4,663)
Reclassifications and other	2,750	19	1,530		4,299
Changes in scope	115,162		43,801		158,963
At 31 December 2016	**1,875,812**	**2,278**	**84,476**	**(73,391)**	**1,889,176**
Increase	17,265	382	4,456		22,103
Decrease	(3,794)		35		(3,759)
Amortisation and charges to provisions	(850)		(4,855)		(5,706)
Reclassifications and other	(7,862)	(19)	802	42,615	35,536
Changes in scope	143,925		792		144,717
AT 31 DECEMBER 2017	**2,024,496**	**2,642**	**85,705**	**(30,776)**	**2,082,066**

Changes in the scope of consolidation derived chiefly from the acquisitions in Austria (€80 million), the Czech Republic (€16 million), Switzerland (€15 million), France (€6 million), Italy (€5 million) and Spain (€5 million).

Advances and downpayments recognised in intangible assets mainly comprise prepayments in connection with contractually agreed acquisitions of operating licences.

Other intangible assets include €28 million in intangible concession assets acquired in Spain in 2012 and €44 million in 2016 as a result of the acquisition of the Sanyres group.

3.3 Regular impairment testing

In accordance with IAS 36, the cash generating units were tested for impairment at the end of 2017, including goodwill, intangible assets with an indefinite useful life and property, plant and equipment (see Note 1.9). The tests did not reveal any impairment.

The useful life adopted in business plans is five years. The main operating assumptions and rates used in the 4th quarter of 2017 were as follows:

- perpetual growth rate: 1.5%;
- discount rate: 6.5%;
- maintenance capex: 2.5% of revenue.

Certain cash generating units may be sensitive to a potential increase in one of the aforementioned three rates.

A potential change of 100 basis points in one of them would not lead to the recognition of an impairment loss.

3.4 Property, plant and equipment

3.4.1 Changes in property, plant and equipment including those under construction

Gross property, plant and equipment and accumulated depreciation break down as follows:

	31/12/2017			31/12/2016		
	Gross	Amort. Prov.	Net	Gross	Amort. Prov.	Net
Land	1,442,792	3,562	1,439,231	1,099,600	3,021	1,096,579
Buildings	3,591,986	629,206	2,962,780	2,875,300	504,824	2,370,476
Technical installations	371,898	234,694	137,204	322,851	198,614	124,237
Properties under construction	370,666	1,251	369,415	443,894	1,251	442,643
Other property, plant and equipment	332,588	166,714	165,874	316,690	159,493	157,196
Property, plant and equipment held for sale	(32,929)		(32,929)	(66,629)		(66,629)
TOTAL	**6,077,001**	**1,035,427**	**5,041,574**	**4,991,705**	**867,203**	**4,124,502**

Depreciation is recognised in profit or loss under Depreciation, amortisation and charges to provisions.

Impairment losses are recognised in other non-recurring operating expense.

Movements in the net carrying amount of property, plant and equipment are as follows:

	Land	Buildings	Technical installations	Properties under construction	Other	Property, plant and equipment held for sale	TOTAL
At 31 December 2015	**950,747**	**1,925,529**	**126,469**	**436,301**	**132,677**	**(126,609)**	**3,445,115**
Acquisitions	42,235	224,623	48,501	211,949	40,123		567,431
Change in fair value	60,000						60,000
Disposals and retirements	(1,276)	(8,820)	(66)	(56,763)	(6,885)		(73,809)
Depreciation and charges to provisions	(177)	(78,784)	(31,259)		(24,789)		(135,008)
Reclassifications and other	24,928	129,426	(19,942)	(150,102)	14,320	59,980	58,609
Changes in scope	20,122	178,502	533	1,257	1,750		202,165
At 31 December 2016	**1,096,579**	**2,370,476**	**124,237**	**442,643**	**157,196**	**(66,629)**	**4,124,502**
Acquisitions	165,042	303,939	53,210	176,889	36,507		735,587
Change in fair value	172,812						172,812
Disposals and retirements	(5,338)	(10,104)	(181)	(70,323)	(297)		(86,243)
Depreciation and charges to provisions	(572)	(101,281)	(35,531)		(18,218)		(155,602)
Reclassifications and other	(34,119)	210,439	(4,762)	(179,794)	(9,980)	33,700	15,484
Changes in scope	44,826	189,311	230	1	666		235,034
AT 31 DECEMBER 2017	**1,439,231**	**2,962,780**	**137,204**	**369,415**	**165,874**	**(32,929)**	**5,041,574**

The main changes during 2017 were:

- the revaluation of properties (see Note 3.4.2);
- changes in scope;
- investments necessary for the continuing operation of the facilities, investments in new buildings or extensions, properties under construction, other items of property, plant and equipment acquired during the year through business combinations and those under construction;
- property disposals in France.

3.4.2 Revaluation of operating properties

The impact of the revaluation of operating properties in accordance with IAS 16 was as follows:

Impact of IAS 16 measurement	31/12/2017	31/12/2016
Gross revaluation reserves	692,765	519,953
Depreciation	(17,439)	(17,439)
NET REVALUATION RESERVES	**675,326**	**502,514**

The gross revaluation reserve for properties totalled €693 million at 31 December 2017, versus €520 million at 31 December 2016.

The net impact of the revaluation was €173 million in 2016.

The corresponding tax, calculated at the statutory tax rate, amounted to €180 million in the year ended 31 December 2017.

3.4.3 Finance leases

Lease-financed property, plant and equipment breaks down as follows based on gross value:

	31/12/2017	31/12/2016
Land	255,409	239,755
Buildings	1,145,709	1,000,271
LEASE-FINANCED NON-CURRENT ASSETS	**1,401,118**	**1,240,026**

All the finance leases contain a purchase option.

Minimum payments due under finance leases are disclosed in Note 3.23.

3.4.4 Operating leases

Rental payments break down as follows:

	2017	2016
Rental payments	298,525	294,865
TOTAL RENTAL EXPENSE	**298,525**	**294,865**

Operating leases consist almost exclusively of renewable leases with fixed rents adjustable mainly at fixed rates, or in accordance with the INSEE construction cost index or the rate of increase in old age pensions.

Total rental payments rose to €298.5 million from €294.9 million in 2016.

This near-stability was primarily attributable to the rent savings achieved by acquiring properties that were previously leased.

At comparable structure, rental expenses edged up 0.8%.

Minimum payments due under operating leases are disclosed in Note 3.23.

3.5 Investments in associates and joint ventures

At 31 December 2017, investments in associates and joint ventures break down as follows:

Associates and joint ventures	Percentage ownership at 31 December 2017	Carrying amount of investments *(in thousands of euros)*
PCM (six care facilities)	45.0%	20,604
Cofinea (property company)	49.0%	5,011
IDS (property company)	49.9%	13,210
Danuvius Klinik (psychiatric care)	49.0%	6,754
Woonzorgnet (psychiatric care)	49.0%	5,591
SIS Brasil Exploit (nursing home)	49.9%	15,000
SIS Portugal Exploit (nursing home)	49.5%	15,000
Other	25% to 49.9%	11,079
TOTAL		**92,249**
Equity accounted profit/(loss) in previous financial years		13,637
Equity accounted profit/(loss) in current period		4,421
INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		**110,307**

Based on the value of the individual investments, existing cash flows with these companies and the ORPEA Group's overall strategy in and outside France, management believes that these interests are not material when taken individually.

At 31 December 2017, the main aggregates related to associates and joint ventures, presented based on the Group's percentage ownership, break down as follows:

	(in thousands of euros)
Non-current assets	212,989
Current assets	53,193
Equity	39,165
Non-current liabilities	114,892
Current liabilities	112,114
Revenue	38,855
Equity accounted profit/(loss)	4,421
Other comprehensive income	363
Net comprehensive income	4,784

3.6 Non-current financial assets

Non-current financial assets break down as follows:

	31/12/2017	31/12/2016
	Net	Net
Non-consolidated investments	10,399	7,845
Loans	21,987	19,441
Deposits and guarantees	7,545	6,962
TOTAL	**39,932**	**34,248**

Non-consolidated investments are investments in companies whose business is not material in relation to that of the Group as a whole, and investments in mutual banks.

Loans mainly consist of construction loans arranged by French subsidiaries.

Security deposits and guarantees include all types of security deposits and guarantees that the Group may be called upon to provide in the normal course of its business.

3.7 Trade receivables

	31/12/2017	31/12/2016
Trade receivables	203,964	148,330
TOTAL	**203,964**	**148,330**

All trade receivables in France are payable within one month by virtue of the nature of the Group's activities.

At the end of 2016, €30 million in receivables were sold and derecognised.

3.8 Other receivables, accruals and prepayments

	31/12/2017	31/12/2016
Development-related receivables	95,213	83,444
Receivables related to property disposals	24,181	23,138
VAT receivables	49,740	35,039
Advances and downpayments made	1,145	4,705
Shareholder advances (associates and related parties)	216,533	176,913
Interest rate derivatives	17,500	
Miscellaneous receivables	37,702	50,648
Receivables from suppliers	7,950	7,846
Prepaid operating expenses	31,622	25,956
TOTAL	**481,586**	**407,689**

Development-related receivables mainly comprise amounts paid in connection with acquisitions of companies, operating licences for nursing homes and post-acute, rehabilitation and psychiatric hospitals, or the construction of new properties.

VAT receivables arise mainly from property construction projects forming part of the Group's growth strategy.

At 31 December 2017, the Group sold a total of €34.3 million in receivables. A total of €32.6 million was derecognised in respect of this sale, reflecting the financing received. The remaining €1.7 million held as security continues to be recognised on the balance sheet.

At the end of 2016, €27 million in receivables were sold and derecognised.

3.9 Assets held for sale

Assets held for sale comprise €33 million in operating properties that the Group has decided to sell in a block or in lots to third-party investors plus €31 million in associated operating licences.

3.10 Equity

3.10.1 Share capital

	31/12/2017	31/12/2016
Total number of shares	64,553,123	60,273,691
Number of shares in issue	64,553,123	60,273,691
Nominal value of the share *(in euro)*	1.25	1.25
Share capital *(in euros)*	80,691,404	75,342,114
Treasury shares	36,030	56,819

Since 31 December 2015, capital increases and the exercise of stock options have had the following impact on share capital and share premiums:

(in thousands of euros)	Total number of shares	Share capital	Share premiums
Share capital at 31/12/2015	**60,273,691**	**75,342**	**620,175**
Appropriation of 2015 net profit			(40,069)
Capital increase			
Share capital at 31/12/2016	**60,273,691**	**75,342**	**580,106**
Appropriation of 2016 net profit			(32,000)
Conversion of ORNANE bonds	4,197,182	5,247	402,681
Capital increase	82,250	103	(103)
SHARE CAPITAL AT 31/12/2017	**64,553,123**	**80,691**	**950,684**

3.10.2 Earnings per share

Weighted average number of shares in issue:

	31/12/2017		31/12/2016	
	Basic	Diluted	Basic	Diluted
Ordinary shares	61,627,126	61,627,126	60,273,691	60,273,691
Treasury shares	(46,425)	(46,425)	(34,130)	(34,130)
WEIGHTED AVERAGE NUMBER OF SHARES	**61,580,701**	**61,580,701**	**60,239,561**	**60,239,561**

Earnings per share:

	31/12/2017		31/12/2016	
(in euros)	Basic	Diluted	Basic	Diluted
NET PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	**1.46**	**1.46**	**4.26**	**4.26**

3.10.3 ORNANE bonds

During the second half of 2013, ORPEA issued 4,260,631 bonds convertible into new shares and/or exchangeable for existing shares (ORNANE bonds).

A total of 12 ORNANE bonds were converted in 2015 and 100 in 2016. No new shares were issued, since existing shares held in treasury were remitted instead.

During the first half of 2017, 564,622 ORNANE bonds were exercised, leading to delivery of 29,342 treasury shares and the issue of 252,015 new shares.

After the 4 September 2017 announcement, ORPEA redeemed its ORNANE bonds early. At that date, 3,695,897 ORNANE bonds remained outstanding, or 86.75% of the initial tranche. Almost all these ORNANE bonds, *i.e.* 3,693,994 were tendered for conversion in return for exclusively new shares based on an exchange ratio of 1.068 shares per 1 ORNANE bond tendered. The Company thus issued 3,945,167 new shares. The remaining 1,903 ORNANE bonds were redeemed early in cash on 19 October 2017.

The financial impact on the consolidated financial statements at 31 December 2017 is presented in Note 3.12.

3.10.4 Treasury shares

The General Meeting of the Shareholders has authorised a share repurchase programme.

This programme has a number of aims, including to allow the ORPEA to maintain the liquidity of and stimulate trading in its shares, to optimise its capital management and to grant shares to employees including under bonus share allotment plans.

At 31 December 2017, the Group held 36,030 treasury shares.

On 10 February 2016, the Board of Directors approved, pursuant to the authorisation granted by the General Meeting of 6 November 2015, the introduction of a bonus share allotment plan for certain corporate officers and employees of ORPEA or its affiliated companies. There are two categories of grantees (categories A and B) under the plan. It provides for the grant of a maximum of 118,350 ORPEA SA shares, subject to the satisfaction of EBITDA- and revenue-based performance conditions.

The bonus share allotment to Category A and Category B grantees became definitive on 10 April 2017 and 10 April 2018 respectively, provided they are still with the Group. Grantees are not permitted to transfer the shares they receive under this plan for two years following the definitive vesting date.

On 4 May 2017, the Board of Directors approved the introduction of a new bonus share allotment plan for corporate officers covering a total of 29,714 shares. The allotment will become definitive on 4 May 2019 subject to the satisfaction of performance criteria, and the shares will be covered by a two-year lock-up period.

On 13 December 2017, the Board of Directors approved the introduction of two other bonus share allotment plans for certain employees of ORPEA or its affiliated companies covering a total of 26,000 shares. The allotment will become definitive on 13 December 2020 for plan A employees and on 13 December 2021 for plan B employees, provided in both cases that the employees are still with the Group at those dates. A one-year lock-up period will apply to both plans.

The fair value of the benefits provided to the grantees under IFRS 2 was measured by an actuary for each plan. This takes into account the market value of the shares, less a discount to reflect the fact that no dividend is paid until the end of the vesting period and that shares may not be sold for two years following the vesting date. The total expense is then calculated taking into account the probability that grantees will remain with the Group and the probable number of shares that they will be granted according to whether the performance criteria are satisfied.

The fair value of the three plans (excluding social security contributions) under IFRS 2 was estimated at €10.2 million. The amount expensed in 2017 was €3.1 million (excluding social security contributions).

3.10.5 Dividend payments

The General Meeting of the Shareholders on 22 June 2017 approved payment of a dividend in respect of the 2016 financial year of €1 per share, representing a total payout of €60,531,156 made in late July 2017.

3.11 Provisions

Provisions break down as follows:

						Reversals in the period		
(in thousands of euros)	**31/12/2016**	**Changes in scope and other**	**Actuarial gains or losses**	**Reclassification**	**Charges in the period**	**Provisions used**	**Provisions not used**	**31/12/2017**
Prov. for liabilities and charges	72,906	440		(219)	20,289	(4,361)	(19,544)	69,511
Prov. for restructuring	95,506	18,473		(1,374)	5,581	(16,720)		101,467
TOTAL	**168,412**	**18,913**		**(1,592)**	**25,870**	**(21,081)**	**(19,544)**	**170,979**
Post-employment ben. ob.	63,919	5,269	107	(2,383)	10,564	(5,291)		72,185

In October 2016, the *Conseil d'État* [France's supreme administrative court] issued a ruling confirming the Group's assessment concerning the application of the rules for calculating VAT on a pro rata basis. It had lodged a complaint with the French tax authorities concerning the tax reassessments issued in respect of the 2010-2013 financial years. The court found in ORPEA's favour and granted it a €20 million total rebate in July 2017. Accordingly, €14 million of the corresponding provision was reversed.

Other changes in provisions derived chiefly from changes in the scope of consolidation.

ORPEA and Clinea, as well as some of the Group's subsidiaries, are undergoing tax audits. Most of the reassessments notified by the tax authorities have been challenged by these companies, and so no provisions have been set aside for these reassessments. Tax reassessments that are not challenged are recognised in the year in which they are received.

The current portion of provisions (*i.e.* due in less than one year) at 31 December 2017 totalled €49 million, breaking down into €21 million for employment disputes, €18 million for tax disputes and €10 million for restructuring.

The provision for post-employment benefit obligations breaks down as follows:

(in thousands of euros)	**31/12/2017**	**31/12/2016**
France	34,246	27,275
International	37,939	36,644
TOTAL	**72,185**	**63,919**

Movements in post-employment benefit obligations in France break down as follows:

	31/12/2017				31/12/2016			
(in thousands of euros)	Present value of obligation	Provision set aside	Profit or loss	Equity	Present value of obligation	Provision set aside	Profit or loss	Equity
Beginning of period	**27,275**	**(27,275)**			**23,480**	**(23,480)**		
Current service cost	2,476	(2,476)	(2,476)		2,403	(2,403)	(2,403)	
Interest cost (unwinding discount)	327	(327)	(327)		265	(265)	(265)	
Expected return on plan assets								
Employer contributions								
Actuarial gains and losses	6,482	(6,482)		(6,482)	3,234	(3,234)		(3,234)
Benefits paid	(2,418)	2,418			(2,106)	2,106		
Changes in scope	104	(104)						
Other								
END OF PERIOD	**34,246**	**(34,246)**	**(2,803)**	**(6,482)**	**27,275**	**(27,275)**	**(2,668)**	**(3,234)**

Movements in post-employment benefit obligations outside France break down as follows:

	31/12/2017				31/12/2016			
(in thousands of euros)	Present value of obligation*	Provision set aside	Profit or loss	Equity	Present value of obligation*	Provision set aside	Profit or loss	Equity
Beginning of period	**36,644**	**(36,644)**			**27,736**	**(27,736)**		
Current service cost	4,888	(4,888)	4,888		2,454	(2,454)	(2,454)	
Interest cost (unwinding discount)					111	(111)	(111)	
Expected return on plan assets								
Employer contributions					(381)	381	381	
Actuarial gains and losses	(6,375)	6,375		6,375	(530)	530		530
Past service cost								
Changes in scope	5,165	(5,165)			4,047	(4,047)		
Other (exchange differences)	(2,392)	2,392						
Reclassification	9	(9)			3,206	(3,206)		
END OF PERIOD	**37,939**	**(37,939)**	**4,888**	**6,375**	**36,644**	**(36,644)**	**(2,184)**	**530**

* *Net of plan assets.*

The main actuarial assumptions adopted at 31 December 2017 are as follows:

	31/12/2017		31/12/2016	
	France	International	France	International
Discount rate	1.20%	between 0.85% and 1.20%	1.50%	between 0.85% and 1.20%
Annual rate of salary increase taking account of inflation	2.50%	between 1.25% and 1.75%	1.50%	between 1.25% and 1.75%
Expected rate of return on plan assets	N/A	between 1% and 1.20%	N/A	between 1% and 1.20%
Retirement age	65	65	65	65
Social security contribution rate	average actual rate		average actual rate	

The actuarial gains or losses recognised in equity arise from adjustments reflecting changes in the financial environment (discount rate) and in demographic parameters.

3.12 Financial liabilities and cash

ORPEA's net debt breaks down as follows:

(in thousands of euros)	Net 31/12/2017	Net 31/12/2016
Bond issues	772,312	723,842
Finance lease obligations	1,020,075	885,518
Bridging loans	324,374	462,024
Other borrowings and financial liabilities	2,973,518	2,288,421
Total gross debt*	**5,090,280**	**4,359,805**
Cash	(568,158)	(504,108)
Cash equivalents	(45,740)	(35,816)
TOTAL NET DEBT*	**4,476,382**	**3,819,881**

* *O/w debt associated with assets held for sale.*

Movements in financial liabilities in 2017 were as follows:

(in thousands of euros)	31/12/2016	Increase	Decrease	Changes in scope	31/12/2017
Bond issues	723,842	282,517	(234,047)		772,312
Finance lease obligations	885,518	136,814	(125,679)	123,422	1,020,075
Bridging loans	462,024	401,553	(539,203)		324,374
Other borrowings and financial liabilities	2,288,421	1,075,098	(422,708)	32,707	2,973,518
Total gross debt*	**4,359,805**	**1,895,982**	**(1,321,637)**	**156,129**	**5,090,280**
Cash and cash equivalents	(539,924)	(73,974)			(613,898)
Total net debt*	**3,819,881**	**1,822,008**	**(1,321,637)**	**156,129**	**4,476,382**
Debt associated with assets held for sale	(140,020)	76,315			(63,705)
NET DEBT EXCLUDING DEBT ASSOCIATED WITH ASSETS HELD FOR SALE	**3,679,861**	**1,898,323**	**(1,321,637)**	**156,129**	**4,412,677**

* *O/w debt associated with assets held for sale.*

Debt net of cash breaks down by maturity as follows:

	31/12/2017	Less than one year*	One to five years	Over five years
Bond issues	772,312	129,312	271,000	372,000
Finance lease obligations	1,020,075	52,109	408,002	559,964
Bridging loans	324,374	133,747	190,628	(0)
Other borrowings and financial liabilities	2,973,518	153,537	2,166,151	653,829
Total gross debt*	**5,090,280**	**468,705**	**3,035,781**	**1,585,793**
Cash and cash equivalents	(613,898)	(613,898)		
TOTAL NET DEBT*	**4,476,382**	**(145,193)**	**3,035,781**	**1,585,793**

* *O/w debt associated with assets held for sale.*

Debt maturing in more than one year and less than five years breaks down as follows:

	One to five years	2019	2020	2021	2022
Bond issues	271,000	181,000	20,000	0	70,000
Finance lease obligations	408,002	118,190	104,466	104,480	80,866
Bridging loans	190,628	54,427	50,774	49,927	35,500
Other borrowings and financial liabilities	2,166,151	526,344	536,847	566,182	536,778
TOTAL GROSS DEBT PER YEAR	**3,035,781**	**879,960**	**712,087**	**720,589**	**723,145**

ORPEA's financing policy

ORPEA uses the three main types of financing:

- financing for its operating properties provided by property leases, finance leases or bank loans, typically repayable over a period of 12 years;
- financing for the acquisition of facilities in service, operating licences, etc., mainly provided by bank loans repayable over a term of five or seven years;
- financing for properties recently acquired or under redevelopment or construction provided by bridging loans.

  Bridging loans comprise financing lines dedicated to a specific project and general bank credit lines. The intention with these properties is either to sell them to third parties or to keep them, in which case they are usually subsequently refinanced under finance leases.

The Group's expansion policy regularly requires it to arrange new bank credit facilities or sell properties to investors.

Bank covenants

Since 31 December 2006, certain loans arranged by the Group, other than property finance leases, have been subject to the following contractually agreed covenants:

$$R1 = \frac{\text{Consolidated net debt (excluding property debt)}}{\text{Consolidated EBITDA} - 6\% \text{ of property debt}}$$

and

$$R2 = \frac{\text{Consolidated net debt}}{\text{Equity + quasi equity (\textit{i.e.} deferred tax liabilities linked to the measurement of intangible operating assets under IFRS in the consolidated financial statements)}}$$

At 31 December 2017, these ratios were at 2.1x and 1.4x respectively, within the required limits of mainly 5.5x for R1 and 2.0x for R2 at 31 December 2017.

Bond issues

ORNANE bonds: On 9 July 2013, ORPEA issued bonds convertible into new shares and/or exchangeable for existing shares (ORNANE bonds) carrying dividend rights from 17 July 2013. The maturity date of the ORNANE bonds is 1 January 2020. A full description of the characteristics of these bonds can be found in the securities note approved by the AMF under no. 13-338 on 9 July 2013.

At issue, the 4,260,631 bonds had a nominal unit value of €46.56 each, putting their total nominal value at €198 million.

The coupon payable is a fixed rate of 1.75% p.a. throughout the life of the bonds, payable semi-annually in arrears.

Bondholders have a contractual option to convert their bonds into cash or new shares, in line with the arrangements set forth in the securities note, from the issue date up until the 18th trading day (exclusive) prior to 1 January 2020. ORPEA may, however, exercise a right of early redemption if the share price exceeds 130% of the par value of the bond, but solely on or after 1 February 2017.

The conversion right constitutes an embedded derivative under IAS 39, with changes in fair value being recognised in profit or loss.

Following the notification by the Company of its intention to redeem the ORNANE bonds ahead of their maturity date, almost all the investors tendered their bonds for conversion within a 30-day period. By 4 October 2017, 99.95% of the ORNANE bonds (3,693,994 bonds) had been converted, leading to the issue of 3,945,167 new shares (based on a ratio of 1.068 shares per ORNANE bond).

The impact on profit or loss over the period came to €168.4 million, breaking down as follows:

- interest expense of €7.5 million over the period;
- an additional €15.3 million financial expense linked to accelerated amortisation of the issue expenses;
- a €124 million charge linked to the change in the fair value of the embedded derivative up to the conversion date;
- a €21.6 million deferred tax expense reflecting the reversal of deferred taxes that arose on the previous remeasurements of the embedded derivative.

Accordingly, a €408 million capital increase took place as a result of the conversion of the ORNANE bonds, in return for the extinguishment of the financial liability and the embedded derivative.

Other bond issues

ORPEA carried out three bond issues during the second half of 2012 in the Euro private placement market:

- 1,930 bonds in two tranches (securities note approved by the AMF under no. 12-580 on 28 November 2012):
  - tranche A: 650 bonds at a unit price of €100,000 raising a total of €65 million. These bonds are repayable at maturity on 10 January 2018,
  - tranche B: 1,280 bonds at a unit price of €100,000 raising a total of €128 million. These bonds are repayable at maturity on 30 May 2019;
- 200 bonds at a unit price of €100,000 raising a total of €20 million (securities note approved by the AMF under no. 12-579 on 28 November 2012). These bonds are repayable at maturity on 30 November 2018;
- 900 bonds at a unit price of €100,000 raising a total of €90 million. These bonds are repayable at maturity on 4 December 2026.

ORPEA carried out three new bond issues during the second half of 2013 in the Euro private placement market:

- 330 bonds at a unit price of €100,000 raising a total of €33 million (securities note approved by the AMF under no. 13-152 on 10 April 2013). These bonds are repayable at maturity on 30 May 2019;
- 200 bonds at a unit price of €100,000 raising a total of €20 million (securities note approved by the AMF under no. 13-357 on 11 July 2013). These bonds are repayable at maturity on 30 November 2019;
- 750 bonds in Belgium at a unit price of €100,000, which raised €75 million. These bonds are repayable at maturity in two tranches, the first in 2018 and the second in 2020.

ORPEA carried out three new bond issues during the second half of 2015 in the Euro private placement market:

- 200 bonds at a unit price of €100,000 raising a total of €20 million (securities note approved by the AMF under no. 15-635). These bonds are repayable at maturity on 22 December 2022.
- 60 bonds at a unit price of €100,000, totalling €6 million (securities note approved by the AMF under no. 15-635). These bonds are repayable at maturity on 22 December 2025;
- 500 bonds in Belgium at a unit price of €100,000, which raised €50 million. These bonds are repayable at maturity in 2022.

During 2016, ORPEA raised €13 million by issuing 130 bonds, each for a unit price of €100,000 (securities note approved by the AMF under no. 15-635).

During 2017, ORPEA issued three bonds raising a total of €50 million from the issue of 500 bonds at a unit price of €100,000 repayable at maturity in 2025, a total of €63 million from the issue of 630 bonds at a unit price of €100,000 repayable at maturity in 2024, and a total of €150 million from the issue of 1,500 bonds at a unit price of €100,000 repayable at maturity in 2024.

Lastly, the Group also arranged a €244 million Schuldscheindarlehen-type loan in July and September 2017.

Cash and cash equivalents

At 31 December 2017, ORPEA's cash and cash equivalents consisted of €45,740 thousand in short-term investments in non-speculative term accounts with prime financial institutions and €568,158 thousand in bank overdrafts.

3.13 Change in the fair value of the entitlement to the allotment of shares embedded in the ORNANE bonds

Changes in the fair value of the conversion right embedded in the ORNANE bonds since their launch have been as follows:

	(in thousands of euros)
Change in 2013	4,893
Change in 2014	25,100
Change in 2015	43,000
Change in 2016	1,800
Change in 2017	124,023
Conversion in 2017	(198,816)
TOTAL CHANGE SINCE INCEPTION	**0**

See Note 3.12 on the ORNANE bonds.

3.14 Financial instruments

3.14.1 Interest rate risk

Interest rate risk management strategy

Most of the Group's debt consists of domestic debt carrying floating rates of interest, and so it is exposed to the risk of an increase in short-term rates in the euro zone.

The Group's strategy is to hedge almost all of its consolidated net debt against the risk of fluctuations in interest rates. To do so, it borrows at fixed rates or uses derivatives to hedge its floating-rate financial liabilities. These include interest rate swaps under which the counterparty receives mainly three-month Euribor and pays a fixed rate specific to each contract, and interest rate options (caps, collars, etc.). The Group applies hedge accounting under IAS 39, and these transactions qualify as cash flow hedges.

Unrealised gains and losses arising from the remeasurement of these derivatives at fair value are recognised in equity at the end of the reporting period.

The use of these hedges to curb interest rate risk exposes the Group to counterparty risk. Counterparty risk is the risk of having to replace a hedge at going market prices should a counterparty default. The Group's analysis did not identify any material impact arising from this risk.

Interest rate derivatives

At 31 December 2017, as at 31 December 2016, the derivatives portfolio included fixed for floating (mainly 3-month Euribor) interest rate swaps and interest rate options. These derivatives have either a constant or decreasing nominal profile.

At the end of 2017, the maturity profile of the interest rate derivatives was as follows:

	Maturity profile				
	2018	2019	2020	2021	2022
Average notional amount *(in millions of euros)*	2,204	2,201	2,194	2,197	2,194
Interest rate	1.1%	0.8%	0.8%	0.6%	0.6%

At the end of 2016, the maturity profile of the interest rate derivatives was as follows:

	Maturity profile				
	2017	2018	2019	2020	2021
Average notional amount *(in millions of euros)*	2,230	2,212	2,201	2,194	2,197
Interest rate	1.2%	1.2%	0.8%	0.8%	0.6%

Accumulated changes in the fair value of these hedging derivatives, which came to €(44.1) million at 31 December 2017, were recognised in full under interest rate hedging reserves in equity.

In addition, Senecura has commitments arising from trading derivatives (not part of the Group's portfolio of cash flow hedges) that it entered into prior to its takeover by the ORPEA Group, the value of which at the end of the year was €(0.4) million.

Accumulated changes in the fair value of these hedging derivatives, which came to €(83.2) million at 31 December 2016, were recognised in full under interest rate hedging reserves in equity.

Analysis of sensitivity to fluctuations in interest rates

The impact of a +/- 1% shift in the yield curve on the Group's earnings derives from:

- the amount of floating-rate debt net of cash via fluctuations in interest rates;
- changes in the fair value of hedges.

The fair value of hedging instruments is sensitive to changes in interest rates and trends in volatility. Volatility is assumed to remain unchanged for the purposes of this analysis.

At 31 December 2017, net debt amounted to €4,476 million, with approximately 32% arranged at fixed rates and the remainder at floating rates.

Including the impact of hedging arrangements:

- a 1% (100 basis point) rise in the yield curve would increase the Group's financial expense by €2.4 million (before tax and capitalisation of financial expenses);
- a 0.2% decrease (20 basis points given current interest rate levels) would have no impact on financial expense.

Movements in the cash flow hedging reserve

(in thousands of euros)	31/12/2017	31/12/2016
Revaluation reserve at beginning of period	(83,119)	(82,498)
Change in fair value during the period recognised in equity	69,994	27,426
Change in fair value over the period recognised in profit or loss	(30,958)	(28,047)
Impact on comprehensive income for the period	39,036	(621)
REVALUATION RESERVE AT END OF PERIOD	**(44,083)**	**(83,119)**

3.14.2 Currency risk

The Group uses forward currency purchases and sales to hedge its future transactions in foreign currencies. To this end, forward currency agreements were entered into with first-rate counterparties under which euro sums are swapped for an amount in a foreign currency (Swiss franc, Polish zloty or Czech koruna) at a pre-agreed rate and date.

The Group decided not to qualify these transactions as a hedging relationship.

The principal characteristics of these instruments are as follows:

(in thousands of euros)	Notional	Fair value at 31/12/2017
Currency forwards (CHF)	43,412	22
Currency forwards (CZK)	75,289	300
Currency forwards (PLN)	21,849	(121)
TOTAL	**140,550**	**201**

All these currency hedging instruments have a maturity date in the first quarter of 2018.

3.14.3 Value of non-derivative financial assets

(in thousands of euros)	31/12/2017	31/12/2016
Investments in unconsolidated subsidiaries	10,399	7,845
Other non-current financial assets	21,987	19,441
Short-term investments	45,740	35,816
NON-DERIVATIVE FINANCIAL INSTRUMENTS	**78,126**	**63,102**

3.15 Trade payables

	31/12/2017	31/12/2016
Trade payables	227,206	232,019
TOTAL	**227,206**	**232,019**

3.16 Tax and payroll liabilities

The change in tax and payroll liabilities derived from the Group's strong expansion and the improvement in its earnings.

3.17 Other payables, accruals and prepayments

	31/12/2017	31/12/2016
Development-related liabilities	78,812	96,379
Security deposits	58,278	55,075
Commitments to carry out work on buildings sold	885	1,093
Customer accounts in credit	1,046	1,205
Other prepaid income	18,021	20,104
Interest rate derivatives	62,011	84,393
Advances and downpayments received on orders in progress	19,685	19,783
Shareholder advances (associates and related parties)	5,869	12,420
Miscellaneous expenses	43,619	33,808
TOTAL	**288,225**	**324,259**

Security deposits mainly comprise the sums paid by residents at the beginning of their stay.

3.18 Debt associated with assets held for sale

Debt associated with assets held for sale reflects the debt financing these assets.

3.19 Segment information

	31/12/2017	31/12/2017	31/12/2016	31/12/2016
REVENUE				
France		1,775,109		1,695,405
International		1,363,125		1,145,820
Germany	531,725		500,970	
Austria	242,638		176,307	
Belgium	167,570		162,133	
China	1,525		405	
Spain	142,778		101,669	
Italy	51,714		48,452	
Poland	12,967		11,266	
Switzerland	199,040		142,914	
Czech Republic	13,169		1,703	
TOTAL		**3,138,234**		**2,841,225**
RECURRING OPERATING PROFIT BEFORE RENTS AND BEFORE DEPRECIATION, AMORTISATION AND CHARGES TO PROVISIONS				
France		531,595		495,564
International		314,590		273,827
Germany	133,374		133,543	
Austria	43,029		34,515	
Belgium	33,288		29,265	
China	(2,859)		(3,139)	
Spain	29,843		21,500	
Italy	9,455		7,218	
Poland	1,912		1,835	
Switzerland	67,507		51,444	
Czech Republic	(959)		(2,354)	
TOTAL		**846,185**		**769,391**
ASSETS				
France		6,109,408		5,641,959
International		3,586,074		2,733,063
TOTAL		**9,695,482**		**8,375,022**
LIABILITIES EXCLUDING EQUITY				
France		4,902,235		4,538,978
International		2,077,868		1,722,924
TOTAL		**6,980,103**		**6,261,902**

The costs of acquiring segment assets are disclosed in Note 2.

3.20 Other non-recurring operating income and expense

(in thousands of euros)	31/12/2017	31/12/2016
Proceeds from property disposals	39,893	86,373
Cost of property disposals	(38,780)	(68,259)
Reversals of provisions	4,679	6,270
Charges to provisions	(22,529)	(22,257)
Other income	70,608	112,337
Other expenses	(34,840)	(54,458)
OTHER NON-RECURRING OPERATING INCOME AND EXPENSE	**19,030**	**60,006**

Other non-recurring operating income and expense mainly comprises €50 million in net gains and losses related to acquisitions as part of business combinations and €(30) million in expenses associated with the redevelopment of recently acquired facilities and other development costs.

Profit on property development projects recognised under the percentage of completion method includes:

(in thousands of euros)	31/12/2017	31/12/2016
Disposal price	18,177	58,270
Cost price	(14,345)	(42,723)
PROFIT RECOGNISED ON DISPOSALS OF OFF-PLAN PROPERTIES	**3,832**	**15,547**

3.21 Net finance cost

	31/12/2017	31/12/2016
Interest on bank debt and other financial liabilities	(101,625)	(83,535)
Interest on items held under finance leases	(14,339)	(13,845)
Net losses on interest rate derivatives	(30,958)	(28,047)
Expense arising from early redemption of the ORNANE bonds	(15,254)	
Financial expense	**(162,177)**	**(125,427)**
Interest income	(57)	184
Capitalised financial expenses*	11,539	13,692
Net income on interest rate derivatives		
Financial income	**11,482**	**13,876**
NET FINANCE COST	**(150,695)**	**(111,551)**

* *Calculated at an average rate of 3.8% in 2017.*

3.22 Income tax expense

ORPEA SA has elected to form a tax consolidation group with all its at least 95%-held subsidiaries. All subsidiaries that meet this condition are included in the tax consolidation group except for those acquired during 2017.

(in thousands of euros)	31/12/2017	31/12/2016
Current income tax	76,437	75,018
Deferred income tax	(23,156)	(70,018)
TOTAL	**53,281**	**5,000**

Current income tax expense for 2017 includes the CVAE value-added levy of €22,113 thousand versus €23,544 thousand in 2016.

Deferred tax expense includes a benefit of €53 million arising from the adjustment of the temporary differences reversing after 31 December 2019 of the French entities based on application of a statutory tax rate of 25.825%.

In addition to this impact, the adjustment based on the same rate led to a €18 million increase in equity shown in other comprehensive income.

Deferred tax assets/(liabilities) break down by type of temporary difference as follows:

(in thousands of euros)	31/12/2017	31/12/2016
Fair value of intangible assets	(431,668)	(443,302)
Fair value of property, plant and equipment*	(358,201)	(317,702)
Capitalisation of finance leases	(100,641)	(93,605)
Temporary differences	(4,220)	(4,587)
Tax loss carryforwards	36,837	38,424
Deferral of capital gains on disposals	433	612
Employee benefits	9,598	10,137
CVAE deferred tax**	(4,733)	(5,477)
Financial instruments and other	31,143	56,857
TOTAL	**(821,451)**	**(758,643)**

* *O/w €180 million in deferred taxes related to the revaluation of operating properties (see Notes 1.8 and 3.4.2).*
** *Deferred taxes recognised in accordance with IAS 12 on property, plant and equipment and intangible assets with a finite useful life of French companies subject to the CVAE value-added levy on businesses with effect from 1 January 2010.*

Deferred taxes calculated based on the IFRS measurement of intangible operating assets came to €431,668 thousand at 31 December 2017.

The deferred taxes recognised on the balance sheet break down as follows:

(in thousands of euros)	31/12/2017	31/12/2016
Assets	36,837	38,424
Liabilities	(858,288)	(797,067)
NET	**(821,451)**	**(758,643)**

The difference between the statutory tax rate, i.e. 34.43% in 2017, and the effective tax rate in the income statement, breaks down as follows:

	31/12/2017	31/12/2016
Effective tax rate	**37.24%**	**1.91%**
Impact of the ORNANE bonds	-12.28%	
Present value of deferred taxes calculated at the rate expected to apply	5.92%	31.14%
Permanent differences	2.57%	0.33%
Business combinations	5.98%	4.31%
Impact of the reduced rate	1.38%	2.31%
Impact of associates	0.50%	0.55%
Impact of foreign companies	-0.19%	1.23%
Other	-2.45%	-1.45%
CVAE value-added levy on businesses	-4.24%	-5.90%
STATUTORY RATE	**34.43%**	**34.43%**

3.23 Commitments and contingent liabilities

3.23.1 Off-balance sheet commitments

Risks related to debt

(in thousands of euros)	31/12/2017	31/12/2016
Contractual obligations	1,556,881	1,528,334
TOTAL	**1,556,881**	**1,528,334**

Pledges, mortgages, security deposits and other collateral account for most of the debt-related commitments.

Commitments relating to the Group's operating activities

Leasing commitments

Minimum future lease payments in respect of non-current assets held under finance leases at 31 December 2017 break down as follows:

(in thousands of euros)	Minimum future payments
Less than one year	135,240
One to five years	445,638
Over five years	702,463
TOTAL LEASE COMMITMENTS	**1,283,341**

Operating lease commitments at 31 December 2017 break down as follows:

(in thousands of euros)	Minimum future payments
Less than one year	268,685
One to five years	1,074,408
Over five years	2,663,777
TOTAL LEASE COMMITMENTS	**4,006,870**

The Group mainly enters into leases with a fixed term of 12 years in France and an average term of 21 years in Switzerland, 17 years in Germany, 20 years in Austria and 27 years in Belgium.

Commitments relating to the scope of consolidation

At 31 December 2017, contractual commitments to acquire facilities, operating licences and land, subject to a number of conditions precedent being met, amounted to €2 million.

The following respective commitments have entered into subject to conditions precedent concerning the potential acquisition of a 100% interest in 45%-held PCM Santé:

- ORPEA gave a promise to buy out majority shareholders by 2021;
- the current majority shareholders gave a promise to sell with effect from 2021;
- a rental guarantee until 2044 was given concerning a hospital.

The following respective commitments have been given concerning the potential acquisition of a 100% interest in 49.9%-held Immobilière de Santé:

- ORPEA has received a promise to sell from the other shareholders between 1 July 2018 and 30 June 2019;
- ORPEA has given a promise to buy out the other shareholders between 1 July 2019 and 30 June 2020.

The following respective commitments have been entered into concerning the potential acquisition of a 100% interest in 49%-held Woonzorgnet:

- ORPEA has received a promise to sell between 1 January 2018 and the fifth business day after 1 July 2018 or between 1 January 2019 and the fifth business day after 1 July 2019;
- ORPEA has given a promise to buy between 1 January 2018 and the fifth business day after 1 July 2018 or between 1 January 2019 and the fifth business day after 1 July 2019.

The following respective commitments have been entered into concerning the possible acquisition of a 100% interest in 49.9%-held SIS Brasil Exploit and 49.5%-held SIS Portugal Exploit:

- ORPEA has received a promise to sell within 6 months of the close of the 4th year of operation of the last facility built and opened or acquired.

ORPEA has granted Belgian company Intorp, a lease payment guarantee covering four properties leased by its Belgian subsidiaries.

Commitments received

The Group has been given a pledge over land in Spain as collateral for a €2.2 million loan granted by ORPEA SA.

It also holds options to buy property assets currently leased in Belgium.

3.23.2 Contingent liabilities

Overall, management believes that the provisions recognised for disputes involving the Group of which it is aware should be sufficient to avoid a substantial impact on the Group's financial position or results of its operations.

3.24 Analysis of financial assets and liabilities in accordance with IFRS 7

Financial assets and liabilities recognised under IFRS 7 break down as follows:

			Carrying amount		Fair value	
(in thousands of euros)	**Classification**	**Level***	**31/12/2017**	**31/12/2016**	**31/12/2017**	**31/12/2016**
Held-to maturity investments			**0**	**0**	**0**	**0**
Bonds and negotiable debt securities	Cash and cash equivalents					
Loans and receivables			**697,582**	**582,422**	**697,582**	**582,422**
Short-term loans	Short-term loans					
Long-term loans	Non-current financial assets	2	21,987	19,441	21,987	19,441
Receivables related to asset disposals	Receivables related to asset disposals in the short term		24,181	23,138	24,181	23,138
Deposits and guarantees	Non-current financial assets	2	7,545	6,962	7,545	6,962
Other receivables	Other receivables	2	439,905	384,551	439,905	384,551
Trade receivables	Trade receivables	2	203,964	148,330	203,964	148,330
Available-for-sale financial assets			**0**	**0**	**0**	**0**
Investments in unconsolidated subsidiaries	Non-current financial assets					
Other						
Financial assets at fair value			**631,398**	**539,924**	**631,598**	**539,924**
Interest rate derivatives		2	17,500		17,500	
Currency derivatives		2			200	
Open-ended investment funds and mutual funds	Cash and cash equivalents	1	45,740	35,816	45,740	35,816
Cash	Cash and cash equivalents	1	568,158	504,108	568,158	504,108
FINANCIAL ASSETS			**1,328,980**	**1,122,346**	**1,329,180**	**1,122,346**

* *Level 1: financial assets and liabilities quoted on an active market, where fair value is the listed price.*
Level 2: financial assets and liabilities not quoted on an active market, for which fair value is measured using directly observable market inputs other than Level 1 inputs.
Level 3: financial assets and liabilities not quoted in an active market, for which fair value is measured using inputs not based on observable market data.

(in thousands of euros)	Classification	Level*	Carrying amount 31/12/2017	Carrying amount 31/12/2016	Fair value 31/12/2017	Fair value 31/12/2016
Financial liabilities at fair value			**62,011**	**159,186**	**62,011**	**159,186**
Currency derivatives	Other payables					
Interest rate derivatives	Other payables	2	62,011	84,393	62,011	84,393
Change in the fair value of the conversion right embedded in the ORNANE bonds		2	0	74,793	0	74,793
Other bonds	Other payables					
Financial liabilities at amortised cost			**5,543,700**	**4,831,690**	**5,545,913**	**4,943,358**
Bonds convertible into, exchangeable for or redeemable in shares	Non-current and current financial liabilities	1	772,312	723,842	774,525	835,510
Bank borrowings	Non-current and current financial liabilities	2	3,297,893	2,750,445	3,297,893	2,750,445
Finance lease obligations	Non-current and current financial liabilities	2	1,020,075	885,518	1,020,075	885,518
Other payables	Current liabilities	2	226,214	239,866	226,214	239,866
Trade payables	Trade payables	2	227,206	232,019	227,206	232,019
FINANCIAL LIABILITIES			**5,605,711**	**4,990,876**	**5,607,924**	**5,102,544**

* *Level 1: financial assets and liabilities quoted on an active market, where fair value is the listed price.*
Level 2: financial assets and liabilities not quoted on an active market, for which fair value is measured using directly observable market inputs other than Level 1 inputs.
Level 3: financial assets and liabilities not quoted in an active market, for which fair value is measured using inputs not based on observable market data.

3.25 Related-party transactions

Related-party transactions

In the normal course of its business, ORPEA enters into various transactions with related parties as defined by IAS 24.

During 2017, the main impacts were as follows:

- advances granted by ORPEA to its associates and joint ventures and to related parties amounted to €217 million at 31 December 2017;
- advances granted to ORPEA by its associates and joint ventures and by related parties amounted to €6 million at 31 December 2017;
- ORPEA leases certain operating properties from related parties within the meaning of IAS 24 – *Related Party Disclosures*. These lease payments amounted to €16 million in 2017.

Benefits granted to corporate officers

The total amount of gross remuneration, fees (excluding all taxes) and benefits paid during the 2017 financial year to ORPEA's corporate officers was €5,427 thousand.

Attendance fees for members of the Board of Directors for the 2017 financial year, paid in 2018, amounted to €451 thousand.

3.26 Headcount

ORPEA had 54,033 employees at 31 December 2017.

3.27 Statutory Auditors' fees

Fees paid in 2017 to the Statutory Auditors for the services they provided to ORPEA break down as follows:

(in thousands of euros)	Deloitte & Associés	Saint-Honoré BK&A	TOTAL
Audit of the financial statements	1,474	936	2,410
Non-audit services			0
TOTAL	**1,474**	**936**	**2,410**

3.28 Subsequent events

At 1 January 2018, Celenus Kliniken, an ORPEA subsidiary managing post-acute and rehabilitation facilities in Germany, acquired a majority shareholding in Inoges. Founded in 2003 by its current manager, Inoges is the German leader in outpatient rehabilitation (equivalent to day hospitals). Inoges has 30 locations (including two inpatient rehabilitation facilities) in urban areas close to hospitals, primarily in North Rhine-Westphalia, Hesse and Bavaria.

In early 2018, the Group completed an inaugural €400 million public bond issue, tapping into a whole new pool of credit investors.

In early May, the Group announced its expansion into the Netherlands through the acquisition of Dagelijks Leven.

3.29 Scope of consolidation at 31 December 2017

The main companies involved in ORPEA's activities and management of its property portfolio are:

	Percentage control	Percentage ownership	Method of consolidation
SA ORPEA	100%	100%	Parent
SAS Clinea	100%	100%	Full
SARL Niort 94	100%	100%	Full
Domidom – ADHAP	100%	100%	Full
SA ORPEA Belgium	100%	100%	Full
Orpimmo	100%	100%	Full
ORPEA Italia SRL	100%	100%	Full
Casamia Immobiliare	100%	100%	Full
ORPEA Iberica	100%	100%	Full
SL Dinmorpea	100%	100%	Full
Senevita AG	100%	100%	Full
ORPEA Deutschland	100%	100%	Full
Celenus	100%	100%	Full
Senecura	100%	100%	Full
MEDI-System	100%	100%	Full
CEESCH	100%	100%	Full
GCSE	100%	100%	Full

5.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users. This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the information concerning the Group presented in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Financial year ended 31 December 2017

To the Shareholders,

OPINION

In accordance with the engagement entrusted to us by the General Meeting, we have audited the accompanying consolidated financial statements of ORPEA for the year ended 31 December 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the consolidated group of companies for the year ended 31 December 2017, and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

BASIS FOR OPINION

AUDIT FRAMEWORK

We conducted our audit in accordance with the professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are stated herein in the *Statutory Auditors' responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

INDEPENDENCE

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from 1 January 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537-2014 or in the French code of ethics (*Code de déontologie*) for Statutory Auditors.

JUSTIFICATION OF ASSESSMENTS – KEY AUDIT MATTERS

In accordance with the provisions of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional opinion, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

1. VALUATION OF ASSETS ACQUIRED AND LIABILITIES ASSUMED IN CONNECTION WITH ACQUISITIONS IN SPAIN AND AUSTRIA

Risks identified

As part of its strategy of growth through acquisitions, ORPEA carries out acquisitions on a regular basis. During the period, the Group finalised the recognition of a significant transaction in Spain, as presented in Note 1.30 – Comparability of the financial statements to the consolidated financial statements, as well as transactions in Austria, as presented in Note 2 – Scope of consolidation to the consolidated financial statements.

The definitive allocation of the cost of the transaction in Spain led to an additional remeasurement of the value of assets by €49 million, the recognition of an additional deferred tax liability of €12 million and of an additional €37 million in negative goodwill, adjusted retrospectively in 2016 as if they had been carried out at the acquisition date. In Austria, the provisional allocation of the cost of acquisition gave rise to the recognition of assets and liabilities in the period, including €84 million in intangible rights, €158 million in property, plant and equipment, €13 million in liabilities, €29 million in deferred taxes and €72 million in other assets and liabilities.

The fair value of these assets and liabilities is measured based on:

- for facilities' operating licences (intangible assets), an annual revenue multiple, which varies according to the country and the nature of their activities, as presented in Notes 1.5 – Business Combinations and 1.7 – Intangible assets;
- for operating properties acquired (property, plant and equipment), a measurement determined by property appraisers appointed by management, taking into account the specific features of the properties acquired (location, nature of operations), as presented in Notes 1.5 – Business Combinations and 1.8 – Property, Plant and Equipment;
- for liabilities, an analysis of the risks and obligations (employee-related, tax, property-related and other) that arise during the due diligence process for acquisitions, as presented in Note 1.5 – Business combinations.

The measurement of the assets acquired and liabilities assumed in connection with these two acquisitions represents a key audit matter given their materiality and insofar as this measurement requires the Group's management to make estimates and judgements.

Audit procedures implemented to address the risks identified

To assess the reasonableness of the values adopted for the assets acquired and liabilities assumed in connection with these transactions, we have principally:

- analysed the methodology used by the Group to identify the assets acquired and liabilities assumed;
- verified the identification of the assets and liabilities with the principal legal documents related to these acquisitions;
- examined the documentation of the procedures conducted during acquisitions to identify any assets or liabilities not taken into account in the process of identifying assets and liabilities acquired;
- obtained documentation substantiating an operating licence issued by a competent authority;
- conducted a critical analysis of the appropriateness and reasonableness of the key assumptions and judgements made to measure operating licences based on industry practices and the relevant geographical regions;
- assessed the competence and independence of the property appraisers appointed by management and the reasonableness of the assumptions adopted by the appraisers (estimated market rent, capitalisation rates) with input from our property experts, where appropriate;
- evaluated the relevance of the assumptions and methods used to measure any risks and obligations.

2. VALUATION OF OPERATING PROPERTIES, LAND AND BUILDINGS OWNED AND OPERATED BY THE GROUP

Risks identified

At 31 December 2017, the Group's property, plant and equipment had a net value of €4,672 million, or 48% of total assets. It predominantly comprises land, buildings, fixtures and fittings.

As specified in Note 1.8 – Property, plant and equipment to the consolidated financial statements, properties, land and buildings owned and operated by ORPEA are revalued at fair value in line with IAS 16.31 – *Property, Plant and Equipment*.

To assess the fair value of operating properties, the property appraisers appointed by management use the capitalisation-based method. The value of these properties is determined based on the income they generate, their estimated market rent, to which a capitalisation rate is applied (expected rate of return). The estimated market rent is projected using an operating expense ratio in line with standard practice in each country. The capitalisation rates applied depend on location, type of operation and form of ownership.

Owing to the material value of the relevant assets and the estimates inherent in the valuation methods adopted by the property appraisers appointed by management, we considered that the appropriate measurement of these assets was a key audit matter.

Audit procedures implemented to address the risks identified

To assess the reasonableness of the estimate of the fair value of the properties, land and buildings owned and operated by Group, we have:

- obtained the evaluations produced by the property appraisers appointed by management;
- assessed the competence and independence of these appraisers;
- verified that these evaluations match the amounts recognised in the financial statements;
- verified that the procedure covering the evaluation of all the properties was applied correctly over a three-year period;
- assessed the reasonableness of the assumptions adopted by the property appraisers (estimated market rent, capitalisation rates) with input from our property experts, where appropriate.

Lastly, we have checked that Notes 1.8 – Property, plant and equipment and 3.4.2 – Revaluation of properties to the consolidated financial statements provide appropriate disclosures.

3. ACCOUNTING TREATMENT OF THE EARLY REDEMPTION OF THE ORNANE 2020 BONDS

Risks identified

On 9 July 2013, ORPEA issued bonds convertible into new shares and/or exchangeable for existing shares (ORNANE bonds) carrying dividend rights from 17 July 2013 with a maturity date of 1 January 2020. The original characteristics of these bonds are presented in Note 3.12 to the consolidated financial statements. At 31 December 2016, the ORNANE bonds were recognised as a financial liability of €289 million in ORPEA's consolidated financial statements, €111 million of which as a separate embedded derivative.

As stated in Note 3.10.3 of the notes to the consolidated financial statements at 31 December 2017, the Company decided during 2017 to proceed with the early redemption of all the ORNANE bonds outstanding. The early redemption timetable and arrangements were announced in a press release by the Company on 4 September 2017. The Company decided to redeem the ORNANE bonds by remitting new shares, including in respect of the nominal value of the instruments.

After analysing the terms of the agreement and in line with IAS 32 – *Financial Instruments: Presentation* and IAS 39 – *Financial Instruments: Recognition & Measurement*, management found that the transaction would give rise to the following effects in the 2017 income statement:

- €23 million in additional financial expense given the recalculation of the amortised cost of debt (accelerated amortisation of issue expenses and interest expense for the period);
- an additional €124 million charge linked to the recalculation of the fair value of the derivative embedded up to the conversion date;
- a €22 million expense reflecting the reversal of deferred taxes on the previous remeasurements of the embedded derivative.

This reversal also led to the extinguishment of the financial liability the embedded derivative and the recognition of a €408 million capital increase.

Owing to the materiality of the transaction for the financial statements for the year ended 31 December 2017, we have decided to analyse this transaction as a key audit matter.

Audit procedures implemented to address the risks identified

We have examined the compliance of the accounting treatment applied by the Company with the accounting treatment laid down in IAS 32 – *Financial Instruments: Presentation* and IAS 39 – *Financial Instruments: Recognition & Measurement*.

In addition, we have examined:

- the arrangements adopted to measure the instrument with input from our specialists, where appropriate;
- the Company's impact calculations, including:
  - the correct recalculation of the amortised cost of the financial liability and the correct revaluation of the embedded derivative and their impact on financial expense from 1 January until the conversion date,
  - the correct derecognition of the financial liability and the embedded derivative in return for the associated capital increase at the conversion date.

This work corroborated the figures contained in the corresponding legal documents.

In addition, we have verified the impacts of the early redemption of the ORNANE bonds and the appropriateness of the information disclosed in the notes to the consolidated financial statements.

VERIFICATION OF THE INFORMATION PERTAINING TO ORPEA PRESENTED IN THE MANAGEMENT REPORT

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to ORPEA presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation or its consistency with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

APPOINTMENT OF THE STATUTORY AUDITORS

Deloitte et Associés was appointed as Statutory Auditors of ORPEA by the General Meeting of the Shareholders of 29 June 2006, and Saint-Honoré BK&A by the General Meeting of 27 June 2008.

At 31 December 2017, Deloitte et Associés was in its 12[th] year of uninterrupted engagement and Saint-Honoré BK&A in its 10[th] year of uninterrupted engagement, or 12 and 10 years respectively since the Company's shares were admitted to trading on a regulated market.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing ORPEA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate ORPEA or to cease operations.

The Audit Committee is responsible for overseeing the financial reporting process and for monitoring the effectiveness of internal control and risk management systems, and, where appropriate, internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OBJECTIVES AND AUDIT APPROACH

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As stated in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability or the quality of management of the affairs of the Company.

As part of an audit in accordance with professional standards applicable in France, we are required to exercise professional judgment throughout the audit. We are also required to:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate or are not relevant, we may issue a qualified opinion or refuse to issue an opinion;
- evaluate the overall presentation of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion on the consolidated financial statements.

REPORT TO THE AUDIT COMMITTEE

We submit a report to the Audit Committee, which specifically includes a description of the scope of the audit and the audit programme implemented, as well the results of our audit. We also bring any significant internal control weaknesses that we identified affecting the procedures for the preparation and processing of accounting and financial information to the attention of the Committee.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and that are therefore the key audit matters, which we are required to present in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537-2014 confirming our independence within the meaning of the rules applicable in France, as laid down in Article L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Where appropriate, we discuss with the Audit Committee risks affecting our independence and the related safeguards.

Paris and Neuilly-sur-Seine, 7 May 2018

The Statutory Auditors

Saint-Honoré BK&A	**Deloitte & Associés**
Emmanuel Klinger	Jean-Marie Le Guiner

6.

Parent company financial statements at 31 December 2017

6.1 ORPEA SA'S FINANCIAL STATEMENTS AT 31 DECEMBER 2017

INCOME STATEMENT OF ORPEA SA

(in euros)	31/12/2017	31/12/2016
REVENUE	792,094,399	723,748,182
Production transferred to inventories	(40,686,454)	(36,172,563)
Other operating income	48,848,457	56,950,045
Purchases and other external charges	292,982,963	272,569,229
Taxes other than on income	43,310,280	37,981,337
Staff costs	369,310,432	345,975,374
Depreciation, amortisation and charges to provisions	21,507,398	22,407,167
Other operating expenses	1,016,663	1,443,473
Operating profit	**72,128,666**	**64,149,083**
Financial income	165,288,643	92,950,147
Financial expenses	112,292,194	110,138,451
Net finance cost	**52,996,448**	**(17,188,304)**
Pre-tax profit on ordinary activities	**125,125,115**	**46,960,778**
Net non-recurring items	(8,969,099)	(10,568,119)
Employee profit-sharing		
Income tax	4,954,206	6,483,743
NET PROFIT	**111,201,810**	**29,908,916**

BALANCE SHEET OF ORPEA SA

Assets *(in euros)*	31/12/2017 Gross	31/12/2017 Deprec., amort. and ch. to provisions	31/12/2017 Net	31/12/2016 Net
NON-CURRENT ASSETS				
Intangible assets	284,002,749	2,052,674	281,950,075	269,504,896
Property, plant and equipment	404,264,700	155,642,778	248,621,922	238,039,474
Financial assets	1,270,107,598	13,478,026	1,256,629,572	1,054,341,764
Total non-current assets	**1,958,375,049**	**171,173,478**	**1,787,201,571**	**1,561,886,133**
CURRENT ASSETS				
Inventories and work-in-progress	8,510,797	1,188,655	7,322,142	42,649,186
Advances and downpayments made	4,335,124		4,335,124	4,030,636
Trade receivables	22,118,331	5,688,763	16,429,568	12,211,230
Other receivables	2,591,045,295	13,911,467	2,577,133,828	1,977,542,116
Short-term investments	24,140,322		24,140,322	19,232,763
Cash and cash equivalents	265,471,323		265,471,323	327,191,402
Prepaid expenses	11,126,108		11,126,108	10,039,006
Total current assets	**2,926,747,300**	**20,788,885**	**2,905,958,415**	**2,392,896,339**
Accrued expenses				-
Unrealised foreign currency losses				
TOTAL ASSETS	**4,885,122,348**	**191,962,363**	**4,693,159,985**	**3,954,782,475**

Equity and liabilities *(in euros)*	31/12/2017	31/12/2016
EQUITY		
Share capital	80,691,404	75,342,114
Share premiums and reserves	663,441,212	526,953,669
Retained earnings		466,713
Net profit for the period	111,201,810	29,908,916
Tax-regulated provisions	8,389,506	7,069,252
Total equity	**863,723,932**	**639,740,663**
PROVISIONS FOR LIABILITIES AND CHARGES	**26,939,619**	**39,016,945**
FINANCIAL LIABILITIES		
Borrowings and financial liabilities	3,185,638,228	2,661,957,944
Advances and downpayments received	1,357,800	4,418,048
Trade payables	32,786,477	42,967,781
Tax and payroll liabilities	93,655,421	97,760,664
Other payables	473,916,647	429,646,414
Prepaid income	11,384,497	37,451,087
Total financial liabilities	**3,798,739,071**	**3,274,201,939**
Unrealised foreign currency gains	**3,757,364**	**1,822,928**
TOTAL EQUITY AND LIABILITIES	**4,693,159,985**	**3,954,782,475**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

TABLE OF CONTENTS

1 SIGNIFICANT ACCOUNTING PRINCIPLES, MAJOR EVENTS OF THE YEAR AND SUBSEQUENT EVENTS

1.1 Basis of preparation

The Company applies the provisions of ANC regulation no. 2016-07 amending regulation no. 2014-03 concerning the French general chart of accounts.

Generally accepted accounting principles have been adopted, in accordance with the conservatism principle and based on the following basic assumptions:

- the going concern basis of accounting;
- consistency of accounting methods from one financial year to the next except where changes are required by introduction of the new regulations (see the Change in accounting methods section);
- the accrual principle;
- and the general rules for preparing and presenting financial statements.

Historical cost is the basic method used to measure items recorded in the financial statements. As an exception to the above, the operating licences and investments in subsidiaries held prior to that date were revalued in connection with the mergers of 1998.

The annual financial statements reflect the provisions of ANC regulation 2015-05 on financial futures and hedging transactions for mandatory application from the 2017 financial year. The regulation has no impact on the annual financial statements for the period.

1.2 Significant accounting policies

The significant accounting policies used are as follows:

1.2.1 Intangible assets

Intangible assets mainly comprise:

- Licences to operate nursing home facilities, shown under Commercial goodwill.

  These licences are considered to have an indefinite useful life, which is consistent with the Group's leading position within the industry. This status is underpinned by the Group's observations and past experience that the probability of licences being withdrawn or not renewed is limited, since ORPEA operates its facilities in strict compliance with the terms and conditions and the standards set by the various healthcare authorities, and since the costs incurred in maintaining these licences are not material;
- Technical merger losses, shown under Other intangible assets.

  Technical losses arising on mergers reflect unrealised gains on assets, which may or may not be recognised in the absorbee's financial statements less any unrecognised liabilities in the absorbee's financial statements. They are recognised as the difference between the carrying amount of the previously held investment and the absorbed subsidiary's net assets.

  Pursuant to Article 745-5 of ANC regulation no. 2015-06 amending ANC regulation no. 2014-03 on the French general chart of accounts, technical losses are assigned in proportion to reliably estimated unrealised gains, with any remaining portion allocated to business goodwill.

  These technical losses are then amortised or impaired using the same methods as are applicable to the underlying assets to which they are assigned.

  The Other intangible assets heading includes technical losses assigned to the licences to operate nursing home beds and any other unallocated technical losses.

Groups of assets to which unamortised commercial goodwill and/or a technical loss have been assigned are tested annually for impairment, which consists in comparing their carrying amount with the higher of:

1) value in use, which is determined by discounting expected future cash flows from each of the facilities in which these assets are operated.

   The discount rate used for this impairment testing is the ORPEA Group's weighted average cost of capital, and the terminal value is determined using a perpetual growth rate reflecting the growth outlook for the Company in the light of likely trends in its sector of activity (respectively 6.5% and 1.5% at 31 December 2017);
2) fair value less costs to sell, where appropriate.

An impairment loss is recognised in respect of the difference if the carrying amount is higher than value in use or fair value less costs to sell.

Other intangible assets are amortised on a straight-line basis over a period of 1 to 5 years.

1.2.2 Property, plant and equipment

Property, plant and equipment, comprising land, buildings, fixtures and fittings, equipment and furnishings, is measured at cost (purchase price plus transaction costs), production cost or contribution value.

These assets are depreciated on a straight-line basis. Depreciation is calculated based on the expected useful life of each asset or each of its components having different useful lives in line with the following criteria:

- buildings, fixtures and fittings: 12 to 60 years;
- plant and equipment: 3 to 10 years;
- other: 3 to 10 years.

Other property, plant and equipment includes the technical merger losses assigned to property, plant and equipment, which are depreciated using the same rules and useful lives as the underlying assets.

1.2.3 Investments in subsidiaries, long-term investments and related receivables

This item reflects the value of the investments in subsidiaries and other companies.

In accordance with decree no. 2005-1702 of 28 December 2005, the Company has elected to capitalise all transfer taxes, professional fees or commissions and other contract expenses related to the acquisition of long-term investments and securities held for sale as part of the cost of the acquisition.

Expenses related to investments in subsidiaries are amortised on an accelerated basis over a period of 5 years for tax purposes.

Investments in subsidiaries are measured at cost or contribution value.

Other financial assets include the technical merger losses assigned to investments in subsidiaries.

An impairment loss is recognised if the value in use of investments in subsidiaries and of the associated technical merger losses falls below the carrying amount.

Value in use is determined according to the investee company's equity value or an enterprise value calculated on the basis of:

- future cash flows expected to be generated by its continued operation (see section 1.2.1); or
- any realisable value net of selling costs.

Impairment losses are also recognised in respect of any related receivables.

1.2.4 Inventories and work in progress

This item includes various supplies, materials, small items of equipment and work in progress on property projects, which are all measured at cost.

Work in progress on property projects comprises land and construction costs incurred to support the expansion of the Company and of its subsidiaries.

Cost includes the purchase and/or production cost incurred in bringing the asset to its present condition and location. Production cost includes direct production costs and borrowing costs directly attributable to the production of the property asset.

Marketing costs directly attributable to the assets sold are accounted for as property work in progress during the construction period and recognised in expenses at the date of completion of the property.

Property development programmes are:

- either transferred to third parties as a block or in lots;
- or transferred to leasing organisations.

Revenue, construction costs and the corresponding margins are recognised in the income statement on the date of completion of the works.

Changes in work in progress are recognised in profit or loss under Production transferred to inventories.

Inventories are written down if their estimated value in use falls below their carrying amount.

1.2.5 Trade and other receivables

Receivables and payables are measured at nominal value. Receivables are written down if their estimated fair value falls below their nominal value.

An impairment loss is recognised on doubtful trade receivables when there is objective evidence that the Company may be unable to recover the full amount on the original terms and conditions due under the transaction. The age of a receivable and failure to pay within the usual payment period are indicators of impairment.

Based on past experience, the following impairment rates are applied:

- receivables less than 6 months past due: 20% for files handled by the disputes service;
- receivables more than 6 months past due: 50% or less depending on the resident's financial status (joint and several guarantee, own assets, etc.);
- receivables more than 1 year past due: 100% or less depending on the resident's financial status (joint and several guarantee, own assets, etc.).

However, amounts due from residents receiving social support are impaired as follows:

- receivables more than 27 months past due: 50%;
- receivables more than 3 years past due: 100%

1.2.6 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and risk-free, short-term investments such as term deposits.

1.2.7 Provisions

The Company recognises a provision when it has an obligation to a third party, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, without any economic benefits with at least an equivalent value being received in return, and its amount can be estimated reliably.

Where this liability is not probable and the amount of the obligation cannot be measured sufficiently reliably, but an outflow may be required to settle the obligation, the Company recognises a contingent liability.

Provisions for employee-related disputes are estimated by the employee affairs department based on the Company's exposure and the status of any proceedings.

Provisions for tax disputes are estimated by the finance department after a full review of any tax audits in progress.

Where applicable, a provision may be set aside for certain investments in subsidiaries depending on the investee's net assets and its commitments to the Company at the end of the reporting period.

Tax-regulated provisions relate to accelerated depreciation for acquisition-related expenses on investments in subsidiaries.

1.2.8 Borrowings

Borrowings and financial liabilities are recognised at their nominal value net of any associated issue costs, which are recognised in operating profit.

Where future interest expense is hedged, the hedged future liability is still measured at amortised cost.

Financial liabilities include short- and long-term borrowings, and property bridging loans, which are bank loans allocated specifically to finance operating properties recently acquired or under construction.

Other than for bonds, borrowing costs are recognised over the term of the corresponding liability, except where they are directly attributable to the acquisition, construction or production of an asset. In this case, they are included in the cost of the asset.

Bond borrowing expenses are expensed directly in the relevant period.

1.2.9 Financial instruments and derivatives

Interest rate derivatives

The Company's financial liabilities mainly comprise floating-rate domestic debt, and it is therefore exposed to the risk of an increase in short-term rates in the euro zone.

As part of its risk management policy, the Company uses derivatives such as interest-rate swaps and options under which it receives the Euribor rate and pays a fixed rate specific to each contract and linked to the Euribor rate.

The purpose of these transactions is to convert floating-rate into fixed-rate liabilities and to optimise the risk profile of the Company's debt based on expected trends in interest rates.

During 2017, the Company continued its interest rate risk management policy, which is to build up a portfolio of financial instruments that qualify for hedge accounting.

Financial income and expenses associated with interest rate derivatives are recognised in the same manner and period as the income and expenses generated by the hedged item.

Premiums paid for caps are recognised in financial expenses over the period they cover.

Currency derivatives

The Company uses forward currency purchases and sales to hedge its future transactions in foreign currencies. Currency gains and losses on these derivatives are recognised in profit or loss in the same manner and period as the items they hedge. As a general principle, the Company uses derivatives solely for hedging purposes.

Any premiums and discounts on forward currency agreements are recognised in financial income and expense over the period they cover.

1.2.10 Foreign currency transactions

Foreign currency assets and liabilities are translated at year-end exchange rates when they are not covered by a specific hedge. Any exchange gains and losses are recognised under the relevant balance sheet headings. Unrealised foreign exchange losses are provided for, after the effects of any hedging.

1.2.11 Revenue

Revenue mainly derives from:

1) Accommodation and care services provided to residents. This revenue is recognised when the service is provided.

The per diem rate is payable as follows:

- the accommodation component is paid for by the resident,
- the long-term care allowance component is paid for by the resident and the local authority (the daily charge is set by the local authority depending on the level of care required and forecast expenses),
- the medical care component is paid for by the regional health insurance fund (the daily charge is set according to the level of care required and forecast expenses);

2) Sales to third parties of properties built or redeveloped by the Company. Corresponding changes in work in progress are recognised in profit or loss under Production transferred to inventories.

1.2.12 Income tax

ORPEA is the head of a tax consolidation group formed with subsidiaries that are at least 95%-owned.

ORPEA, like each subsidiary in the tax group, pays the income tax calculated on its own earnings.

1.2.13 Tax credit for competitiveness and employment (CICE)

The 3rd Amending Finance Law for 2012 introduced the CICE (tax credit for competitiveness and employment) from 1 January 2013. This tax credit is recognised in the parent company financial statements as a deduction in staff costs.

The CICE tax credit was sufficient in size to maintain the level of investment required for the renovation and restructuring of existing facilities, plus the construction and opening of new facilities. In turn, this helped to create new jobs and ensure their sustainability. It also helped to cover the cost of setting up a mutual health insurance insurer providing cover for most of the Company's employees.

1.3 Internal restructuring

To streamline its organisation structure, the Company merged at the end of the year with six of its subsidiaries, namely SARL La Vénitie, SA Résidence du Moulin, SA Le Vieux Château, SAS Résidence Home La Tour, SAS Saint Jean, and SAS Résidence La Chêneraie.

The various assets and liabilities of these subsidiaries were absorbed and recognised in ORPEA's financial statements at the effective date of their contribution in 2017.

Accordingly, a total of €9,194 thousand in merger losses were recognised, of which €8,200 thousand were assigned to Other intangible assets and €994 thousand to Other financial assets.

1.4 Significant events over the year

Since 1 January 2017, the Company has continued its development by opening a 45-bed facility (in the Aquitaine region of south-west France) following the completion of construction projects launched in previous years.

ORPEA also continued to pursue its policy of growth through acquisitions of new facilities and made some bolt-on acquisitions, directly or *via* companies, of individual assets necessary for its expansion, such as intangible rights (operating licences) and operating properties.

Lastly, ORPEA redeemed ahead of the originally scheduled maturity date all the outstanding ORNANE bonds and raised €244 million by issuing a new Schuldscheindarlehen-type loan, together with three bonds that raised a total of €263 million.

1.5 Subsequent events

In early 2018, ORPEA continued its international expansion drive, including in Germany and the Netherlands, and in early 2018, it completed an inaugural €400 million public bond issue, tapping into a whole new pool of credit investors.

2 COMMENTARY ON THE FINANCIAL STATEMENTS

N.B. Amounts are stated in euros unless expressly stated otherwise.

2.1 Balance sheet

2.1.1 Non-current assets

Intangible assets

Movements in gross intangible assets were as follows:

Gross	Beginning of period	Increase	Decrease	Reclassification	Merger	End of period
Start-up costs	11,949					11,949
Concessions, patents	1,325,544	5,888			6,620	1,338,051
Commercial goodwill	71,982,211	4,207,041	333,854		426,657	76,282,055
Other intangible assets	196,418,016		70,673		8,204,882	204,552,226
Advances on intangible assets	1,707,967	110,500				1,818,468
TOTAL	**271,445,687**	**4,323,429**	**404,527**	**0**	**8,638,159**	**284,002,749**

Amortisation of gross intangible assets broke down as follows:

Amortisation	Beginning of period	Increase	Decrease	Merger	End of period
Start-up costs	9,308				9308
Concessions, patents	1,162,345	47,589		6,620	1,216,554
Commercial goodwill	0	1			1
Other intangible assets	769,141	91,193	35,169	1,646	826,811
Advances on intangible assets	0				0
TOTAL	**1,940,795**	**138,785**	**35,169**	**8,266**	**2,052,674**

Property, plant and equipment

Movements in gross property, plant and equipment were as follows:

Gross	Beginning of period	Increase	Decrease	Reclassification	Merger	End of period
Land	9,865,437		27,221	1,857,728	986,411	12,682,355
Buildings	243,630,343	790,108	2,248,077	23,483,198	4,399,996	270,055,568
Plant and facilities	54,189,422	3,847,130	752,583		1,172,660	58,456,630
Vehicles	499,567		116			499,451
Property, plant and equipment in progress	28,838,387	2,679,331		(11,377,006)	363,999	20,504,712
Other property, plant and equipment	41,008,797	992,673	528,414	(195,500)	788,429	42,065,982
TOTAL	**378,031,953**	**8,309,242**	**3,556,411**	**13,768,420**	**7,711,495**	**404,264,700**

Depreciation and impairment of gross property, plant and equipment was as follows:

Depreciation	Beginning of period	Increase	Decrease	Reclassification	Merger	End of period
Land	19,942		4,364			15,578
Buildings	70,063,804	10,117,711	1,044,590		973,067	80,109,991
Plant and facilities	43,286,195	3,713,532	721,413		919,071	47,197,386
Vehicles	429,397	33,875	100			463,172
Other property, plant and equipment	26,193,141	1,721,318	526,908		469,100	27,856,651
TOTAL	**139,992,479**	**15,586,436**	**2,297,375**	**0**	**2,361,238**	**155,642,778**

Financial assets

Movements in gross financial assets were as follows:

Gross	Beginning of period	Increase	Decrease	Reclassification	Merger	End of period
Investments in subsidiaries	983,695,496	212,262,047			(16,267,956)	1,179,689,587
Other investments	6,985					6,985
Receivables related to investments in subsidiaries	63,791,126					63,791,126
Loans	9,800,343	2,214,142	1,092,182		100,471	11,022,774
Other financial assets	15,419,441	96,340,060	97,302,764		1,140,381	15,597,117
TOTAL	**1,072,713,391**	**310,816,249**	**98,394,946**	**0**	**(15,027,104)**	**1,270,107,598**

The change in investments in subsidiaries derived principally from:

- an increase of €156 million in respect of the capital increases at the end of the period;
- an increase of €30 million following the establishment of the partnership with SIS Brasil Exploit and SIS Portugal Exploit;
- an increase of €19 million following the acquisition of shares in the ORPEA Italia sub-group.

The changes in Other financial assets derived primarily from movements in treasury shares and the reassignment of the merger losses.

Loans and Other financial assets break down as follows:

	31/12/2017	Up to one year	Over one year
Loans	11,022,774	32,802	10,989,972
Deposits and guarantees	3,196,183		3,196,183
Allocation of technical losses	9,509,140		9,509,140
Treasury shares	2,891,795	2,891,795	
TOTAL	**26,619,891**	**2,924,597**	**23,695,295**

The General Meeting of the Shareholders of 29 June 2006 authorised a share repurchase programme. This programme has a number of aims, including to allow the Company to provide liquidity and stimulate trading in its shares, and to optimise its capital management.

A total of 36,030 shares with a carrying amount of €2.9 million were held in treasury at 31 December 2017.

Movements in provisions for financial assets were as follows:

Impairment	Beginning of period	Increase	Decrease	Merger	End of period
Investments in subsidiaries	18,332,520			(4,893,601)	13,438,919
Loans	39,107				39,107
TOTAL	**18,371,627**	**0**	**0**	**(4,893,601)**	**13,478,026**

2.1.2 List of subsidiaries and investments

Company	Share capital	Equity 2016	Percentage ownership	Profit or loss for the financial year	2017 equity	Carrying amount of investments 2017	
						Gross	Net
SCI Route des Écluses	303,374	2,454,280	99%	171,272	2,625,552	303,374	303,374
SCI Les Rives d'Or	1,524	1,919,003	99%	35,247	1,954,250	933,755	933,755
SCI du Château	1,524	3,357,453	99%	350,528	3,707,981	1,353,340	1,353,340
SCI Tour Pujols	1,524	2,700,235	99%	342,658	3,042,893	1,364,795	1,364,795
SCI La Cerisaie	1,524	2,235,204	99%	42,562	2,277,766	47,224	47,224
SCI Val de Seine	1,524	(3,752,187)	99%	(515,293)	(4,267,480)	711,307	711,307
SCI Cliscouet	1,524	2,217,544	99%	90,838	2,308,382	1,494	1,494
SCI Age d'Or	2,549,161	12,246,157	99%	362,749	12,608,906	6,234,540	6,234,540
SCI Gambetta	1,524	5,513,080	99%	(108,631)	5,404,449	1,509	1,509
SCI Croix Rousse	1,524	4,708,543	99%	113,792	4,822,335	1,509	1,509
SCI Les Dornets	1,524	1,221,278	99%	63,642	1,284,920	1,494	1,494
SCI Château d'Angleterre	1,646	8,326,740	99%	231,928	8,558,668	1,763,577	1,763,577
SCI Montchenot	1,524	10,897,669	99%	66,208	10,963,877	1,286,933	1,286,933
SCI 115 rue de la Santé	1,524	9,657,283	90%	(864,985)	8,792,298	1,372	1,372
SCI Abbaye	1,524	(5,564,164)	90%	48,551	(5,515,613)	344,410	344,410
SCI Les Tamaris	1,524	2,361,947	99%	34,733	2,396,680	1,357	1,357
SCI Passage Victor Marchand	1,524	2,424,927	99%	(1,444,241)	980,686	1,509	1,509
SCI Fauriel	36,200,000	(9,724,340)	99%	(1,699,343)	24,774,793	37,455,332	37,455,332
SCI Port Thureau	1,524	1,230,438	99%	(5,376)	1,225,062	63,708	63,708
SCI de l'Abbaye	1,524	1,227,529	99%	311,566	1,539,095	1,509	1,509
SCI Les Maraichers	1,524	2,599,684	99%	492,586	3,092,270	99,595	99,595
SCI Bosguerard	1,524	1,266,990	99%	46,354	1,313,344	1,274,306	1,274,306
SCI Le Vallon	1,524	2,519,790	90%	(1,970,748)	549,042	2,033,228	2,033,228
SCI Brest Le Lys Blanc	1,524	(14,777,496)	98%	(1,647,544)	(16,425,040)	1,494	1,494
SCI Bel Air	1,524	(223,827)	99%	(108,779)	(332,606)	335,837	335,837
SAS CLINEA	194,008,608	323,452,617	100%	59,154,070	282,639,066	203,855,563	203,855,563
SARL Les Matines	7,622	(3,691,974)	100%	(343,419)	(4,035,393)	7,622	7,622
SARL Bel Air	1,265,327	4,434,038	100%	229,742	4,663,780	840,604	840,604
SARL Amarmau	7,622	(1,135,566)	100%	(30,660)	(1,166,226)	7,622	7,622
SARL 94,Niort	231,000,000	278,646,968	100%	7,622,217	286,304,155	231,000,000	231,000,000
SARL 95	7,700	(809,120)	100%	(24,688)	(833,808)	7,700	0
SCI Sainte Brigitte	1,525	(694,511)	100%	(26,097)	(720,608)	1,524	1,524
SARL Vivrea	4,050,000	(3,406,672)	100%	(307,804)	185,524	4,050,000	4,050,000
SA Les Charmilles	76,225	4,475,501	98%	267,904	4,743,405	3,094,117	3,094,117
SCI Kod's	22,650	646,426	100%	(7,553)	638,873	68,116	68,116
SARL La Bretagne	277,457	(1,409,306)	100%	(14,549)	(1,423,855)	41,300	41,300
SARL L'Atrium	7,622	(524,867)	100%	129,048	(395,819)	985,140	985,140
SA Brige	1,200,000	7,754,359	100%	(96,218)	7,658,141	670,000	670,000
SRL ORPEA Italia	7,100,000	4,173,812	100%	(2,900,933)	5,022,879	20,087,393	20,087,393

Company	Share capital	Equity 2016	Percentage ownership	Profit or loss for the financial year	2017 equity	Carrying amount of investments 2017	
						Gross	Net
SCI Les Treilles	15,245	2,298,436	99.99%	49,001	2,347,437	2,363,698	2,363,698
SCI Les Magnolias	1,525	(3,373,255)	99%	(336,188)	(3,709,443)	1,510	1,510
SCI le Barbaras	182,939	6,679,475	0.08%	121,678	6,801,153	821	821
SARL Domea	100,000	173,106	100%	(32,601)	140,505	100,000	100,000
SARL 96	7,084,000	2,313,468	90%	(665,442)	8,724,409	6,375,600	6,375,600
SCI Beaulieu	3,049	(80,705)	100%	(21,352)	(102,057)	30,490	0
SAS La Saharienne	1,365,263	(1,270,068)	100%	(214,447)	(1,484,515)	5,712,440	5,712,440
SARL ORPEA Dev	100,000	873,640	100%	(1,120)	872,520	100,000	100,000
SAS Organis	37,000	96,397	100%	278,334	446,731	11,775,946	9,825,946
Grupo Care	63,921	10,424,129	100%	1,083,329	11,507,458	20,328,321	20,328,321
DINMORPEA	5,000	677,668	100%	1,323,237	2,000,905	5,000	5,000
SRL Casa Mia Immobiliare	20,000,000	14,719,197	100%	(61,977)	14,657,220	13,089,120	13,089,120
SA ORPEA Belgium	81,500,000	175,771,564	99.99%	2,365,507	178,137,071	65,479,233	65,479,233
SA Domaine de Churchill	815,012	17,357,774	100%	(58,405)	17,299,369	12,135,729	12,135,729
SA Domaine de Longchamp	65,026	12,084,887	10%	(61,427)	12,023,460	1,414,449	1,414,449
SA Longchamps Libertas	1,740,000	(2,323,399)	100%	(2,803,540)	(3,986,939)	554,719	554,719
SA RS Domaine de Churchill	265,039	302,644	100%	184,355	486,999	3,075,311	3,075,311
Transac Consulting Corporation	3,009	14,021	100%	(3,670)	10,351	1,823,231	1,823,231
SAS Résidence St Luc	37,200	(4,441,462)	100%	(206,935)	(4,648,397)	2,644,007	0
SARL Benian	1,000	(42,217)	20%	(5,183)	(47,400)	300,200	0
SCI JEM II	152	556,501	90%	60,174	616,675	883,500	883,500
SARL La Doyenne de Santé	8,000	144,075	50%	179,494	323,569	1,267,425	1,267,425
SCI Douarnenez	1,500	(1,588,532)	100%	(299,464)	(1,887,996)	1,485	1,485
SCI Barbacane	1,524	977,775	1%	22,472	1,000,247	15	15
SCI Selika	10,671	5,640,291	0.14%	42,711	5,683,002	15	15
SCI Slim	762	981,254	100%	(201,041)	780,213	1,830	1,830
SCI Saintes Ba	1,524	3,046,313	1%	69,373	3,115,686	15	15
SCI Les Anes	1,000	(1,897,056)	0.10%	137,319	(1,759,737)	1	1
SARL L'Ombrière	8,000	(762,542)	100%	(126,198)	(888,740)	822,027	0
SAS MDR La Cheneraie	254,220	(824,246)	100%	352,346	(471,900)	146,044	146,044
SARL IDF resid Ret. Le Sophora	7,622	(1,184,350)	10%	237,794	(946,556)	80,000	80,000
SNC Les Jardins d'Escudie	100,000	(4,648,034)	100%	(221,180)	(4,869,214)	824,310	824,310
SC Les Praticiens	87,600	67,106	0.08%	871	67,977	67,009	0
SA Emcejidey	293,400	2,754,200	100%	88,631	2,842,831	4,419,887	4,419,887
SARL Résidence du Parc	18,560	(29,397)	100%	(11,318)	(40,715)	5,810	5,810
SCI du Fauvet	1,524	(1,828,791)	10%	73,090	(1,755,701)	68,306	68,306
OPCI	5,301,885	5,269,666	5.02%	242,083	5,511,749	479,732	479,732
SAS SFI France	4,000,000	856,126	51%	(24,703)	831,423	23,305,520	23,305,520
SCI Ansi	22,867	5,501,125	0.1%	110,153	5,611,278	40,399	40,399

Company	Share capital	Equity 2016	Percentage ownership	Profit or loss for the financial year	2017 equity	Carrying amount of investments 2017	
						Gross	Net
SARL Viteal les Cedres	50,000	(1,662,469)	100%	(58,045)	(1,720,514)	85,039	0
SAS Mediter	69,650,000	130,808,881	100%	1,760,851	132,565,395	169,198,343	169,198,343
SNC des Parrans	7,622	(385,280)	100%	(26,956)	(412,236)	1,399,856	0
SAS Holding Mandres	8,000	966,068	100%	40,914	1,006,982	3,325,832	3,325,832
SNC Les Acanthes	7,622	(413,458)	100%	(5,058)	(418,516)	1,468,434	0
SA Le Clos St Grégoire	38,173	1,683,577	100%	7,697	1,691,274	4,676,964	4,676,964
SA Immobilière de Santé	7,828,400	30,935,000	49%	11,428,000	43,090,000	13,210,000	13,210,000
SARL Domidom	19,970,100	(3,543,769)	100%	(332,618)	11,141,144	27,543,657	27,543,657
GCS	100,000	1,016,576	12.50%	0	1,016,576	23,300	23,300
SAS Immo Nevers	5,000	4,277,941	100%	688,991	4,966,932	5,000	5,000
SCI Castelviel	152	(2,965,125)	50%	(387,476)	(3,352,601)	763,650	0
SCI Super Aix	228,674	1,876,011	13%	(34,603)	1,841,408	478,537	478,537
SAS Actiretraite Montgeron	4,000	(1,342,967)	100%	(36,626)	(1,379,593)	746,843	0
SCI Parc St Loup	150,000	(467,077)	100%	(24,873)	(491,950)	149,079	0
SCI Larry	150,000	3,335,937	100%	(14,733)	3,321,204	150,621	150,621
SA China Holding	1,000,000	672,603	100%	(402,621)	269,982	1,000,000	269,982
SARL Résidence de Balbigny	10,000	9,698	100%	(182)	9,516	10,000	10,000
SARL Résidence Parc de Royat	10,000	9,698	100%	(182)	9,516	10,000	10,000
SARL Maison de l'AAR	10,000	9,623	100%	(228)	9,395	10,000	10,000
SARL Résidence de L'Ambène	10,000	9,698	100%	(182)	9,516	10,000	10,000
SARL Résidence L'Angélique	10,000	9,623	100%	(228)	9,395	10,000	10,000
SARL Résidence Saint Martial	10,000	9,698	100%	(182)	9,516	10,000	10,000
SARL Résidence Marquisat	10,000	10,000	100%	(188)	9,812	10,000	10,000
SARL Résidence Parce des Noues	10,000	9,698	100%	(182)	9,516	10,000	10,000
SARL Résidence Les Pergolas	10,000	9,623	100%	(228)	9,395	10,000	10,000
SARL Résidence Du Lac	10,000	9,698	100%	(182)	9,516	10,000	10,000
SARL Résidence Saint Honorat	10,000	9,698	100%	(182)	9,516	10,000	10,000
SARL Résidence L'Atrium	10,000	10,000	100%	(188)	9,812	10,000	10,000
SARL Les Jardins d'Aurillac	10,000	9,698	100%	(182)	9,516	10,000	10,000
CEECSH	50,008,100	17,912,466	100%	(2,004,389)	45,908,077	109,435,324	109,435,324
China Co.	4,413,091	474,035	51%	(1,961,636)	(1,487,601)	2,250,794	0
MEDI-Système	80,750	7,858,394	100%	534,381	8,392,775	20,225,193	20,225,193
SARL Primavera St Marc	100,000	(3,988,727)	100%	(690,632)	(4,679,359)	18,002	18,002
Gevea Senior	850,000	0	49%	(609,008)	240,992	682,251	682,251
Gevea Immo	850,000	0	49%	(44,743)	805,257	406,945	406,945
SCI Senior +	490	(268)	100%	(575,493)	(576,271)	490	490
SAS Familisanté	4,851,200	(2,117,105)	57.46%	773,621	(1,343,484)	18,771,865	18,771,865
SAS Résidence Normandie	7,700	91,382	100%	(58,620)	32,762	1,694,170	1,694,170
SARL La Pergola	7,622	74,530	100%	(7,153)	67,377	403,649	403,649
Niorpea	100,000	n/a	100%	n. disc.	100,000	100,000	100,000

Company	Share capital	Equity 2016	Percentage ownership	Profit or loss for the financial year	2017 equity	Carrying amount of investments 2017	
						Gross	Net
ORPEA Netherlands BV	5,590,900	n/a	100%	n. disc.	5,590,900	5,590,900	5,590,900
SAS David	40,000	n. disc.	100%	n. disc.	40,000	917,562	917,562
ORPEA Suisse SA	90,000	17,669,822	100%	(3,079,800)	57,090,022	63,993,829	63,993,829
SIS Brasil	20,000	(609,131)	49.995%	(298,689)	(907,820)	15,000,000	15,000,000
SIS Portugal	18,600	12,495	49.460%	(2,630)	9,865	15,000,000	15,000,000
Other securities						590,585	566,812
Other securities (access)						194,505	194,505
TOTAL						**1,179,689,587**	**1,166,250,668**

N. disc : not disclosed.

2.1.3 Inventories and work in progress

	Gross at 31/12/2017	Provisions at 31/12/2017	Net at 31/12/2017	Net at 31/12/2016
Small items of equipment and supplies	1,783,317		1,783,317	1,798,282
Property projects in progress	6,727,480	1,188,655	5,538,825	40,850,904
TOTAL	**8,510,797**	**1,188,655**	**7,322,142**	**42,649,186**

The €5,538,825 in net property projects in progress include borrowing costs incurred over the construction period, which amounted to €248,689, compared with €3,884,697 at 31 December 2016.

This financial expense has been capitalised at an average rate of 3.80%, versus 4.15% in 2016.

2.1.4 Receivables

	Gross 31/12/2017	Impairment 31/12/2017	Net 31 /12/2017	Net 31/12 2016
Trade receivables	22,118,331	5,688,763	16,429,568	12,211,230
Tax and payroll receivables	27,593,985		27,593,985	50,422,264
Group and associates	2,299,321,953		2,299,321,953	1,684,383,859
Miscellaneous receivables	264,129,358	13,911,467	250,217,891	242,735,994
TOTAL	**2,613,163,626**	**19,600,230**	**2,593,563,396**	**1,989,753,346**

All receivables are due in less than one year.

Movements in impairment of receivables were as follows:

	Beginning of period	Charges in the year	Reversals in the year	Mergers	End of period
Trade receivables	6,085,835	3,268,534	3,816,089	150,482	5,688,763
Other miscellaneous receivables	13,461,368	450,099			13,911,467
TOTAL	**19,547,203**	**3,718,633**	**3,816,089**	**150,482**	**19,600,230**

2.1.5 Short-term securities

Carrying amount	31/12/2016	Acquisitions	Sales	Impairment	Merger	31/12/2017
Term deposits*	19,139,882	71,000,442	66,000,000			24,140,322
Shares reserved for employees	92,881		92,881			0
(number)	(2,607)					0

* *No impairment was recognised in respect of these accounts as their fair value was higher than their carrying amount.*

2.1.6 Composition of the share capital

Changes in share capital

	Number of shares issued	Share capital	Share premiums and reserves	Retained earnings	Net profit for the period	Tax-regulated provisions	Dividend payments	Total equity
At 31/12/2015	**60,273,691**	**75,342,114**	**569,526,433**	**901,676**	**11,238,594**	**6,391,832**	**0**	**663,400,650**
Appropriation of net profit			(42,572,764)	(434,963)	(11,238,594)		54,246,322	0
Dividend payments							(54,246,322)	(54,246,322)
Tax-regulated provisions						677,420		677,420
Net profit at 31/12/2016					29,908,916			29,908,916
At 31/12/2016	**60,273,691**	**75,342,114**	**526,953,669**	**466,713**	**29,908,916**	**7,069,252**	**0**	**639,740,663**
Appropriation of net profit			(30,258,339)	(363,900)	(29,908,916)		60,531,156	0
Other	252,015	315,018	(315,018)					0
Conversion of ORNANE bonds	3,945,167	4,931,458	167,060,902					171,992,360
Bonus share allotment plan	82,250	102,813		(102,813)				0
Dividend payments							(60,531,156)	(60,531,156)
Tax-regulated provisions						1,320,254		1,320,254
Net profit at 31/12/2017					111,201,810			111,201,810
AT 31/12/2017	**64,553,123**	**80,691,404**	**663,441,212**	**0**	**111,201,810**	**8,389,506**	**0**	**863,723,932**

The share capital stood at €80,691,404 at the end of the year. It consisted of 64,553,123 shares each with a par value of €1.25.

The General Meeting of the Shareholders on 22 June 2017 approved payment of a dividend in respect of the 2016 financial year of €1 per share, representing a total payout of €60,531,156 made in late July 2017.

Bonus share allotment plan

On 10 February 2016, the Board of Directors approved, pursuant to the authorisation granted by the General Meeting of 6 November 2015, the introduction of a bonus share allotment plan for certain corporate officers and employees of ORPEA or its affiliated companies. There are two categories of grantees (categories A and B) under the plan. It provides for the grant of a maximum of 118,350 ORPEA SA shares, subject to the satisfaction of EBITDA- and revenue-based performance conditions.

The bonus share allotment to Category A and Category B grantees became definitive on 10 April 2017 and 10 April 2018 respectively, provided they are still with the Group. Grantees are not permitted to transfer the shares they receive under this plan for two years following the definitive vesting date.

On 4 May 2017, the Board of Directors approved the introduction of a new bonus share allotment plan for corporate officers covering a total of 29,714 shares. The allotment will become definitive on 4 May 2019 subject to the satisfaction of performance criteria, and the shares will be covered by a two-year lock-up period.

On 13 December 2017, the Board of Directors approved the introduction of two other bonus share allotment plans for certain employees of ORPEA or its affiliated companies covering a total of 26,000 shares. The allotment will become definitive on 13 December 2020 for plan A employees and on 13 December 2021 for plan B employees, provided in both cases that the employees are still with the Group at those dates. A one-year lock-up period will apply to both plans.

The shares vesting may be granted through the issue of new shares or the acquisition of existing shares.

The expense recorded in the financial statements for the period reflects solely the social security charges.

The value of the shares adopted as the base for the relevant employer's contribution reflects the closing share price at 31 December 2017.

2.1.7 Provisions

	Beginning of period	Merger	Charges in the year	Reversals in the year (prov. used)	Reversals in the year (prov. not used)	End of period
Labour disputes	5,902,799	47,136	4,090,812	664,122	1,819,077	7,557,548
Other	33,114,146	520,000	788,025	706,100	14,334,000	19,382,071
PROVISIONS FOR LIABILITIES AND CHARGES	**39,016,945**	**567,136**	**4,878,837**	**1,370,222**	**16,153,077**	**26,939,619**

In October 2016, the *Conseil d'État*, France's supreme administrative court, issued a ruling confirming the Group's assessment concerning the application of the rules for calculating VAT on a pro rata basis. It had lodged a complaint with the French tax authorities concerning the tax reassessments issued in respect of the 2010-2013 financial years. The court found in ORPEA's favour and granted it a €20 million total rebate in July 2017. Accordingly, €14 million of the corresponding provision was reversed.

ORPEA and certain of its subsidiaries in its tax consolidation group are undergoing tax audits. Most of the reassessments notified by the tax authorities have been challenged, and so no provisions have been set aside for these reassessments. Tax reassessments that are not challenged are recognised in the year in which they are received.

At 31 December 2017, Other provisions for liabilities and charges chiefly consist of provisions for tax risks.

2.1.8 Financial liabilities

	31/12/2017	31/12/2017	31/12/2016	31/12/2016
Borrowings and financial liabilities	3,185,638,228		2,661,957,944	
Financial liabilities maturing in 1 year or less		568,289,891		413,325,449
Financial liabilities maturing in more than 1 year and less than 5 years		1,998,381,169		1,705,645,424
Financial liabilities maturing in over 5 years		618,967,168		542,987,071
Trade payables	32,786,477		42,967,781	
Financial liabilities maturing in 1 year or less		32,786,477		42,967,781
Financial liabilities maturing in more than 1 year and less than 5 years				
Financial liabilities maturing in over 5 years				
Tax and payroll liabilities	93,655,420		97,760,664	
Financial liabilities maturing in 1 year or less		93,655,420		97,760,664
Financial liabilities maturing in more than 1 year and less than 5 years				
Financial liabilities maturing in over 5 years				
Group and associates	366,203,836		344,396,371	
Financial liabilities maturing in 1 year or less		366,203,836		344,396,371
Financial liabilities maturing in more than 1 year and less than 5 years				
Financial liabilities maturing in over 5 years				
Miscellaneous liabilities	112,827,975		85,250,043	
Financial liabilities maturing in 1 year or less		75,987,932		50,617,597
Financial liabilities maturing in more than 1 year and less than 5 years		36,840,043		34,632,446
Financial liabilities maturing in over 5 years				
TOTAL	**3,791,111,936**	**3,791,111,936**	**3,232,332,804**	**3,232,332,804**

New borrowings arranged during the year amounted to €1,238,539 thousand and borrowings of €714,423 thousand were repaid.

Group and associates comprise advances to the Group's subsidiaries.

Other financial liabilities chiefly comprise security deposits provided by residents (€37 million) and development-related liabilities (€43 million).

Borrowings and financial liabilities

ORPEA Group's financing policy

Financing requirements have increased as a result of the Group's strong growth momentum. ORPEA not only finances its own expansion operations, but also those of its subsidiaries, and principally Clinea.

Bond issues

ORNANE bonds: on 9 July 2013, ORPEA issued bonds with an option for redemption in cash and/or in new or existing shares (ORNANE bonds) carrying dividend rights from 17 July 2013. The maturity date of the ORNANE bonds is 1 January 2020. The 4,260,631 bonds have a nominal value of €46.56 each, putting their total nominal value at €198 million.

The coupon payable is a fixed rate of 1.75% p.a. throughout the life of the bonds, payable semi-annually in arrears.

Bondholders have a contractual option to convert their bonds into cash or new shares, in line with the arrangements set forth in the securities note, from the issue date up until the 18th trading day (exclusive) prior to 1 January 2020. ORPEA may, however, exercise a right of early redemption if the share price exceeds 130% of the par value of the bond, but solely on or after 1 February 2017.

A total of 12 ORNANE bonds were converted in 2015 and 100 in 2016. No new shares were issued, since existing shares held in treasury were remitted instead.

During the first half of 2017, 564,622 ORNANE bonds were exercised, leading to delivery of 29,342 treasury shares and the issue of 252,015 new shares.

Following the notification by the Company of its intention to redeem the ORNANE bonds ahead of their maturity date, almost all the investors tendered their bonds for conversion within a 30-day period. By 4 October 2017, 99.95% of the ORNANE bonds (3,693,994 bonds) had been converted, leading to the issue of 3,945,167 new shares (based on a ratio of 1.068 shares per ORNANE bond). The remaining 1,903 ORNANE bonds were redeemed early in cash on 19 October 2017.

Other non-convertible bond issues:

In 2017, ORPEA issued the following bonds:

- 500 bullet bonds redeemable in 2025 at a unit price of €100,000, which raised €50 million;
- 1,500 bullet bonds redeemable in 2024 at a unit price of €100,000, which raised €150 million;
- 630 bullet bonds redeemable in 2024 at a unit price of €100,000, which raised €63 million.

In July and September 2017, the Group also arranged €244 million in Schuldscheindarlehen-type loans.

Bank covenants

Various loans arranged by the Company are conditional on compliance with financial ratios that are assessed based on the Group's financial liabilities.

The agreed ratios are as follows:

$$R1 = \frac{\text{Consolidated net debt (excluding property debt)}}{\text{Consolidated EBITDA – 6\% of property debt}}$$

and

$$R2 = \frac{\text{Consolidated net debt}}{\text{Equity + quasi equity (i.e. deferred tax liabilities linked to the measurement of intangible operating assets under IFRS in the consolidated financial statements)}}$$

At 31 December 2017, these ratios were at 2.1x and 1.4x respectively, within the required limits of mainly 5.5x for R1 and 2.0x for R2 at 31 December 2017.

2.1.9 Financial instruments

At 31 December 2017, the following hedges were in place:

(in thousands of euros)	Notional value	Fair value at 31/12/2017
Effective caps	650,000	(1,200)
Caps with forward start date	265,000	(2,967)
Effective fixed-for-Euribor IRS	1,559,176	(29,471)
Forward dated fixed-for-Euribor IRS	5,692,000	(15,551)
TOTAL	**8,166,176**	**(49,189)**

(in thousands of euros)	Notional value	Fair value at 31/12/2017
Currency forwards (CHF)	43,412	22
Currency forwards (CZK)	75,289	300
Currency forwards (PLN)	21,849	(121)
TOTAL	**140,550**	**201**

2.1.10 Other liabilities

Accrued expenses

	31/12/2017	31/12/2016
Borrowings and financial liabilities	23,549,149	20,897,339
Trade payables	18,754,608	18,866,914
Tax, payroll and miscellaneous liabilities	39,413,685	46,100,505
TOTAL	**81,717,442**	**85,864,758**

Accrued income

	31/12/2017	31/12/2016
Financial receivables	26,241	103,407
Trade receivables	5,837,785	3,925,927
Other receivables	13,989,457	9,946,033
TOTAL	**19,853,483**	**13,975,367**

Prepaid expenses

	31/12/2017	31/12/2016
Operating	654,552	593,050
Financial	10,471,556	9,445,956
Non-recurring		
TOTAL	**11,126,108**	**10,039,006**

The change was mainly caused by prepaid expenses arising on the bond issues carried out during the year.

Prepaid income

	31/12/2017	31/12/2016
Operating	11,384,497	37,451,087
TOTAL	**11,384,497**	**37,451,087**

This item reflects merely the portion of medical care allowances yet to be recognised in future expenses. No other prepaid income was left since all the off-plan sales had been completed.

Unrealised foreign currency gains

	31/12/2017	31/12/2016
Subsidiaries	3,757,364	1,822,928
TOTAL	**3,757,364**	**1,822,928**

2.1.11 Related-party disclosures

Entities	Other receivables	Other payables	Other financial income	Financial expense
Wholly-owned Group subsidiaries	2,299,321,953	366,203,836	58,588,378	12,130,241
Other subsidiaries	181,106,005	43,543,854	725,237	3,245

2.2 Income statement

2.2.1 Revenue

	31/12/2017	31/12/2016
Operation of nursing homes	754,643,656	713,932,640
Sale of properties	37,450,743	9,815,542
TOTAL	**792,094,399**	**723,748,182**

2.2.2 Operating income

	31/12/2017	31/12/2016
Operation of nursing homes	754,643,656	713,932,640
Operating revenue	**754,643,656**	**713,932,640**
Sale of properties	37,450,743	9,815,542
Capitalised production of properties	11,823,623	30,262,926
Production transferred to inventories	(40,686,454)	(36,172,563)
Income from property activities	**8,587,912**	**3,905,905**
Other capitalised production	5,155,020	5,929,907
Operating subsidies	316,671	226,790
Reversals of provisions and expense transfers	31,952,960	18,044,772
Other income	(399,817)	2,485,648
Other operating income	**37,024,834**	**26,687,119**
TOTAL OPERATING INCOME	**800,256,402**	**744,525,664**

2.2.3 Expense transfer

	31/12/2017	31/12/2016
Restructuring and development costs	1,425,137	1,200,297
Capitalised expenses	2,219,231	5,124,715
Insurance payouts	474,062	726,247
Provident fund payouts	4,403,612	4,246,547
Training refunds	3,187,942	2,727,239
Sickness payouts	167,564	198,726
Capitalised borrowing costs on property projects	53,044	1,404,022
Miscellaneous expenses	56,762	3,074
TOTAL	**11,987,354**	**15,630,867**

2.2.4 Net finance cost

	31/12/2017	31/12/2016
Interest on bank borrowings and other financial expenses	(67,910,892)	(60,583,321)
Net losses on financial instruments	(30,585,316)	(29,498,519)
Foreign exchange losses	(1,655,237)	(36,946)
Impairment losses on securities	0	(3,000,000)
Other expenses	(7,264)	(5,427)
Income from investments	100,000,000	30,000,000
Net gains on inter-company current accounts	47,180,129	41,885,834
Capitalised financial expenses	53,044	1,404,022
Net income from sale of short-term investments	(57,619)	173,755
Foreign exchange gains	932,215	6,792
Other income	5,047,388	2,465,506
NET FINANCE COST	**52,996,448**	**(17,188,304)**

Income from investments in 2017 chiefly reflects the dividends paid by Clinea SAS.

2.2.5 Net non-recurring items

	31/12/2017		31/12/2016	
Non-recurring income		**65,573,020**		**155,282,925**
On management transactions	933,220		690,536	
On capital transactions	63,999,162		152,998,145	
o/w sale of financial assets	0		114,402,098	
Reversals of provisions and expense transfers	640,638		1,594,243	
Non-recurring expenses		**74,542,119**		**165,851,045**
On management transactions	3,283,585		3,804,132	
o/w cost of acquisitions	1,425,137		1,200,297	
o/w caretaking costs	186,772		473,876	
o/w property expenses	108,782		752,588	
On capital transactions	67,095,547		152,197,421	
o/w sale of financial assets	1,978,770		112,547,117	
Non-recurring depreciation/amortisation, charges to provisions	4,162,987		9,849,491	
o/w development-related receivables	0		8,000,000	
NET NON-RECURRING ITEMS		**(8,969,099)**		**(10,568,119)**

	31/12/2017	31/12/2016
Capital gains and losses on asset retirements	(3,096,385)	870,379
Restructuring and development expenses	(2,017,542)	(3,037,902)
Provisions for miscellaneous receivables	(2,285,643)	(7,572,954)
Accelerated tax depreciation/amortisation	(1,236,706)	(682,295)
Miscellaneous expenses	(439,814)	(145,347)
Technical merger gain/(loss)	106,991	
NET NON-RECURRING ITEMS	**(8,969,099)**	**(10,568,119)**

2.2.6 Income tax

As the head company of the ORPEA tax consolidation group, ORPEA calculates the tax payable on the Group's taxable income.

The tax group has no further tax loss carryforwards, although certain subsidiaries have tax losses that can be set off against their own taxable income.

At 31 December 2017, the ORPEA tax consolidation group's aggregate taxable income was €98,840,941, including ORPEA SA's taxable income of €7,100,083 in its capacity as a member company.

As provided for under the group tax consolidation agreement, each subsidiary is responsible individually for paying its own income tax and contributions due on taxable income and capital gains, less any tax credits arising on tax loss carryforwards.

The €4,954,206 in tax expense shown in ORPEA SA's financial statements breaks down as follows:

	Before income tax	Income tax	After income tax
Operating profit	72,129,121	(23,529,989)	48,599,132
Net finance cost	52,995,993	9,862,723	62,858,716
Net non-recurring items	(8,969,099)	3,305,373	(5,663,726)
Income tax on dividends and other		5,407,688	5,407,688
BOOK PROFIT	**116,156,015**	**(4,954,206)**	**111,201,810**

Timing differences between the tax treatment and accounting treatment of various transactions are likely to affect the future tax liability as follows:

- add-backs to be made in future years:
  - unrealised gains on the business goodwill subject to a tax deferral as a result of mergers: €43,610 thousand,
  - unrealised gains on securities subject to a tax deferral as a result of mergers: €24,419 thousand,
  - foreign exchange gains: €3,757 thousand;
- deductions to be made in future years:
  - organic levy: €1,254 thousand,
  - unrealised gain on mutual funds: €3 thousand.

3 FINANCIAL COMMITMENTS AND OTHER DISCLOSURES

3.1 Off-balance sheet commitments

Financing-related commitments

Financial commitments

Contractual commitments *(in thousands of euros)*	31/12/2017	31/12/2016
Receivables sold not yet matured (Dailly regime, etc.)	0	26,869
Pledges, mortgages and other security	272,282	203,292
TOTAL	**272,282**	**230,161**

		Payments due by period		
Contractual commitments *(in thousands of euros)*	31/12/2017	less than 1 year	from 1 to 5 years	over 5 years
Long-term borrowings	3,185,638	691,325	1,879,071	615,242
Finance lease obligations	106,790	38,129	60,063	8,598
TOTAL	**3,292,428**	**729,454**	**1,939,135**	**623,840**

Leases

	Property leases	Equipment leases
Value at inception of lease	36,200,001	138,663,323
Lease payments during period	3,754,206	24,287,007
Total lease payments in previous periods	29,587,703	36,940,287
Theoretical depreciation for period	775,428	18,254,052
Accumulated depreciation in respect of previous periods	7,574,953	48,303,798
Lease payments outstanding – due in one year or less	4,341,860	33,786,891
Lease payments outstanding – due in more than one year but less than five years	16,345,952	43,717,100
Lease payments outstanding – due in over five years	8,597,902	0
Buyout value	4,860,000	390,704

Commitments to employees

Lump-sum benefits payable upon retirement calculated using the projected unit credit method totalled €10,727 thousand at 31 December 2017, compared with €11,568 thousand at 31 December 2016.

The main actuarial assumptions adopted at 31 December 2017 are as follows:

- salary increase rate: 2.50% including inflation;
- discount rate: 1.20%;
- retirement age: 65;
- social security contribution rate: in line with 2017 figures.

The amount paid by the Company in lump-sum retirement benefits amounted to €468,866 in 2017.

There were no material commitments in respect of long-service awards.

Other commitments

In 2002, ORPEA waived, subject to a clawback provision, €1,915,487 in debt due from its subsidiary SA Clinique du Docteur Courjon, which was subsequently absorbed by Clinea SAS.

ORPEA has entered into the following commitments concerning its 49.9% interest in Immobilière de Santé with a view to gaining full control of the company:

- ORPEA has secured a promise to sell from the other shareholders between 1 July 2018 and 30 June 2019;
- ORPEA has given a promise to buy out the other shareholders between 1 July 2019 and 30 June 2020.

ORPEA has granted Belgian company Intorp, a lease payment guarantee covering four properties leased by its Belgian subsidiaries.

The following respective commitments have been entered into concerning the potential acquisition of a 100% interest in 49%-held Woonzorgnet:

- ORPEA has received a promise to sell between 1 January 2018 and the fifth business day after 1 July 2018 or between 1 January 2019 and the fifth business day after 1 July 2019;
- ORPEA has given a promise to buy between 1 January 2018 and the fifth business day after 1 July 2018 or between 1 January 2019 and the fifth business day after 1 July 2019.

The following respective commitments have been entered into concerning the possible acquisition of a 100% interest in 49.9%-held SIS Brasil Exploit and 49.5%-held SIS Portugal Exploit:

- ORPEA has received a promise to sell within 6 months of the close of the 4th year of operation of the last facility built and opened or acquired.

3.2 Employees

At 31 December 2017, ORPEA SA's headcount on a full-time equivalent basis was as follows:

	31/12/2017	31/12/2016
Managers	866	820
Other employees	8,777	8,399
TOTAL	**9,643**	**9,219**

3.3 Benefits granted to corporate officers

The total amount of gross remuneration, fees (excluding all taxes) and benefits paid during the 2017 financial year to ORPEA SA's corporate officers was €4,320 thousand.

Attendance fees for members of the Board of Directors for the 2017 financial year, paid in 2018, amounted to €451 thousand.

6.2 STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users. This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the information concerning the Group presented in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Financial year ended 31 December 2017

To the Shareholders,

OPINION

In accordance with the engagement entrusted to us by the General Meeting, we have audited the accompanying annual financial statements of ORPEA for the year ended 31 December 2017.

In our opinion, the financial statements present fairly in all material respects the financial position and assets and liabilities and the results of its operations for the year then ended in accordance with French generally accepted accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

BASIS FOR OPINION

AUDIT FRAMEWORK

We conducted our audit in accordance with the professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are stated herein in the Statutory Auditors' responsibilities for the Audit of the Annual Financial Statements section of our report.

INDEPENDENCE

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from 1 January 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537-2014 or in the French code of ethics (*Code de déontologie*) for Statutory Auditors.

OBSERVATION

Without calling into question the opinion stated above, we draw your attention to Note 1.1 – Basis of preparation to the annual financial statements concerning the first-time application of ANC regulation 2015-05 concerning financial futures and hedging transactions.

JUSTIFICATION OF ASSESSMENTS – KEY AUDIT MATTERS

In accordance with the provisions of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we hereby inform you of the key audit matters relating to risks of material misstatement that, in our professional opinion, were of most significance in our audit of the annual financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the annual financial statements.

1. VALUATION OF INVESTMENTS IN SUBSIDIARIES AND RELATED RECEIVABLES

Risks identified

Investments in subsidiaries including the associated technical merger losses and related receivables, which are shown on the balance sheet at 31 December 2017 at a net amount of €1,246 million, represent one of the largest items on the balance sheet.

They are recognised at the date of acquisition at cost plus related expenses. At the end of the period, they are stated at their value in use, which represents what the Company would agree to lay out to obtain them if it had to purchase them less any impairment.

As stated in Note 1.2.3. to the annual financial statements, value in use is determined by management according to the category of securities:

- either based on the share of revalued equity at the end of the period;
- or based on discounted future cash flows expected to be generated by its continued operation;
- or realisable value net of selling costs.

Estimating the value in use of these securities requires management to exercise its judgment in its choice of parameters to be considered according to the relevant investments. Depending on the circumstances, these parameters may be historical figures (equity, for certain entities, or revaluation at fair value of permits attached to each company and/or property assets) or forecasts.

Given the material nature and characteristics of the parameters to be considered by management when valuing investments in subsidiaries, we have considered that the valuation of investments in subsidiaries and related receivables represented a key audit matter.

Audit procedures implemented to address the risks identified

When assessing the reasonableness of the estimate of the value in use of investments in subsidiaries, and based on the information presented to us, our work principally consisted in:

- for valuations based on historical figures, making sure that the equity figures used tally with the entities' financial statements and that any adjustments to the equity figures are supported by authoritative documents;
- for valuations based on forecasts:
  - obtaining and ensuring that the cash flow forecasts of the relevant entities, prepared under the oversight of executive management, are documented appropriately in line with the economic environment,
  - assessing the reasonableness of the assumptions adopted, including the discount rate and the growth rate,
  - comparing the forecasts adopted for previous periods with corresponding actual figures to consider attainment of past objectives,
  - testing using sampling the arithmetic accuracy of calculations of the value in use adopted by the Company,
  - ensuring that the value produced by cash flow projections has been adjusted by the amount of the relevant entity's debt.

Where the value in use is lower than the cost of the investments in subsidiaries, including associated technical losses, we have verified that an impairment loss was recognised in respect of the difference.

Aside from assessing the value in use of investments in subsidiaries, our work also consisted in:

- assessing the recoverability of the related receivables with respect to the analysis conducted on the investments in subsidiaries;
- verifying that a provision has been set aside to cover risks where the company has undertaken to incur the losses on an investment with negative equity.

Lastly, we have checked that Notes 1.2.3, 2.1.1 and 2.1.2 to the annual financial statements provided appropriate disclosures.

2. ACCOUNTING TREATMENT OF THE EARLY REDEMPTION OF THE ORNANE 2020 BONDS

Risks identified

On 9 July 2013, ORPEA issued bonds convertible into new shares and/or exchangeable for existing shares (ORNANE bonds) carrying dividend rights from 17 July 2013 with a maturity date of 1 January 2020. The original characteristics of these bonds were presented in Note 2.1.8 to the annual financial statements. At 31 December 2016, the ORNANE bonds were recognised as a financial liability of €172 million in ORPEA's annual financial statements.

As stated in Note 2.1.8 to the annual financial statements at 31 December 2017, the Company decided during 2017 to proceed with the early repayment of all the ORNANE bonds outstanding. The early redemption timetable and arrangements were announced in a press release by the Company on 4 September 2017. The Company decided to redeem the ORNANE bonds by remitting new shares.

This redemption led to the extinguishment of the financial liability and the recognition of a €172 million capital increase.

Since this was a major event during the period, we have decided to analyse this transaction as a key audit matter.

Audit procedures implemented to address the risks identified

Our work consisted in reviewing the impact calculations conducted by the Company including the correct derecognition of the financial liability in return for the associated capital increase at the conversion date.

This work corroborated the figures contained in the corresponding legal documents.

We have also verified the appropriateness of the information disclosed in the notes to the annual financial statements.

VERIFICATION OF THE MANAGEMENT REPORT AND OTHER DOCUMENTS SENT TO THE SHAREHOLDERS

In accordance with the professional standards applicable in France, we also carried out the specific checks required by law.

INFORMATION GIVEN IN THE MANAGEMENT REPORT AND IN THE OTHER DOCUMENTS SENT TO THE SHAREHOLDERS WITH RESPECT TO THE FINANCIAL POSITION AND THE ANNUAL FINANCIAL STATEMENTS

We have no matters to report regarding the fairness and consistency with the financial statements of the information given in the Board of Directors' management report, and in the other documents sent to the shareholders with respect to the financial position and the annual financial statements.

REPORT ON CORPORATE GOVERNANCE

We hereby confirm that the information required pursuant to Article L. 225-37-3 and L. 225-37-4 of the French Commercial Code is contained in the Board of Directors' report on corporate governance.

As regards the information provided pursuant to the provisions of Article L. 225-37-3 of the French Commercial Code on remuneration and benefits paid to and commitments made to corporate officers, we have verified that this information is consistent with the financial statements or the data used to prepare the financial statements, and, where applicable, the information obtained by the Company from companies controlling it or controlled by it. Based on our work, we believe the information provided is true and fair.

We verified the compliance of the information that the Company considered as likely to have an impact in the event of a public tender or exchange offer, which is provided pursuant to Article L. 225-37-5 of the French Commercial Code, with the documents from which it was derived and which were provided to us. Based on our work, we have no comments to make concerning this information.

OTHER DISCLOSURES

As required by law, we also verified that the requisite disclosures concerning interests and controlling interests and the identity of holders of share capital or voting rights were made in the management report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

APPOINTMENT OF THE STATUTORY AUDITORS

Deloitte et Associés was appointed as Statutory Auditors of ORPEA by the General Meeting of the Shareholders of 29 June 2006, and Saint-Honoré BK&A by the General Meeting of 27 June 2008.

At 31 December 2017, Deloitte et Associés was in its 12th year of uninterrupted engagement and Saint-Honoré BK&A in its 10th year of uninterrupted engagement, or 12 and 10 years respectively since the Company's shares were admitted to trading on a regulated market.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE ANNUAL FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with French generally accepted accounting standards, and for such internal control as management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

The Audit Committee is responsible for overseeing the financial reporting process and for monitoring the effectiveness of internal control and risk management systems, and, where appropriate, internal audit, regarding the accounting and financial reporting procedures.

These annual financial statements were approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

OBJECTIVES AND AUDIT APPROACH

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As stated in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability or the quality of management of the affairs of the Company.

As part of an audit in accordance with professional standards applicable in France, we are required to exercise professional judgment throughout the audit. We are also required to:

- identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the annual financial statements;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the annual financial statements or, if such disclosures are inadequate or are not relevant, we may issue a qualified opinion or refuse to issue an opinion;
- evaluate the overall presentation of the annual financial statements, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT TO THE AUDIT COMMITTEE

We submit a report to the Audit Committee that specifically includes a description of the scope of the audit and the audit programme implemented, as well the results of our audit. We also bring any significant internal control weaknesses that we identified affecting the procedures for the preparation and processing of accounting and financial information to the attention of the Committee.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the annual financial statements of the current period and that are therefore the key audit matters, which we are required to present in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537-2014 confirming our independence within the meaning of the rules applicable in France, as laid down in Article L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors. Where appropriate, we discuss with the Audit Committee risks affecting our independence and the related safeguards.

Paris and Neuilly-sur-Seine, 7 May 2018

The Statutory Auditors

Saint-Honoré BK&A	**Deloitte & Associés**
Emmanuel Klinger	Jean-Marie Le Guiner

Key information
about the Company

7.1 KEY PROVISIONS OF THE ARTICLES OF ASSOCIATION

The following developments describe how ORPEA (hereinafter referred to as the "Company"), a *société anonyme* [public limited company] with a Board of Directors governed by the French Commercial Code and its implementing decrees and by its Articles of Association operates. Its Articles of Association were not amended in 2017.

The Company's Articles of Association have been updated to reflect the decisions made by its Chief Executive Officer on (i) 28 February 2017, 17 March 2017, 18 April 2017, 31 May 2017, 22 June 2017 and 31 October 2017, formally recording the increases in its share capital arising from the conversion of bonds convertible into new shares and/or exchangeable for existing shares (ORNANE bonds) presented in a prospectus approved by the AMF under visa No. 13-338 of 9 July 2013, and (ii) 10 April 2017 and 10 April 2018, formally recording the increases in its share capital following the bonus allotment to executive officers and certain senior managers.

The Articles of Association are available on request from the Company's head office.

7.1.1 REGISTERED OFFICE

ARTICLE 4 – REGISTERED OFFICE

The registered office is located at 12, rue Jean-Jaurès, 92813 Puteaux Cedex.

It may be transferred to any other location within the same department or to a neighbouring department by means of a simple decision by the Board of Directors, subject to ratification thereof by the subsequent Ordinary General Meeting of the shareholders, and to any other location in France by means of a decision at an Extraordinary General Meeting.

The transfer of the registered office to a location outside France entails a change in the Company's nationality.

7.1.2 CORPORATE OBJECTS

ARTICLE 2 – OBJECTS

The Company's corporate objects are:

- creating, developing, acquiring, managing and operating, directly or indirectly, all types of care facilities, post-acute and rehabilitation hospitals, and residential facilities for the elderly, all types of residential facilities for disabled people of any age, and all hotel, hotel-related and leisure accommodation facilities;
- providing technical, commercial, administrative and financial assistance to all companies whose business activity is directly or indirectly related to the foregoing;
- acquiring and subscribing for equity instruments in all existing or future companies and creating and managing all financial investments, (...),

and more generally, conducting any and all commercial, industrial, financial, real and non-real property transactions that are directly or indirectly related to or likely to facilitate the development of the foregoing activities.

7.1.3 GOVERNING AND EXECUTIVE BODIES

Articles 14 to 21 of the Articles of Association lay down the modus operandi of the Company's governing and executive bodies.

ARTICLE 14 – FORM OF EXECUTIVE MANAGEMENT

Either the Chairman of the Board of Directors, or another individual appointed by the Board of Directors and holding the position of Chief Executive Officer Executive shall be responsible for the executive management of the Company.

The Board of Directors may select one of two executive management structures, in accordance with the following conditions:

- the choice shall be made by the Board of Directors by a two-thirds majority vote of the members present;
- the chosen option must remain in force for a minimum period of two years.

Shareholders and third parties shall be informed of the choice made by the Board as provided for by the *Conseil d'État* [France's supreme administrative court] decree.

When the Chairman of the Board of Directors is entrusted with responsibility for executive management of the Company, the provisions below relating to the Chief Executive Officer shall apply to him/her.

ARTICLE 15 – BOARD OF DIRECTORS

1. The Company shall be governed by a Board of Directors made up of at least three and no more than eighteen members, subject to the special cases provided for in law.

   During the life of the Company, the directors shall be appointed or reappointed by the Ordinary General Meeting of the shareholders. However, in the event of a merger or demerger, appointments may be made by the Extraordinary General Meeting called to approve the transaction.

2. They are appointed for a term in office of four years and may be reappointed.

   As an exception to the rule, to stagger the terms in office of the members of the Board of Directors, members of the Board of Directors who are to be appointed at the General Meeting called to approve the financial statements for the financial year ended 31 December 2010, may be appointed for a period of two, three or four years.

   The duties of a director shall come to an end at the close of the Ordinary General Meeting approving the financial statements for the previous financial year, held in the year during which said director's term in office expires.

   Directors shall always be eligible for re-election. They may be dismissed at any time by shareholders at the Ordinary General Meeting.

   A person may not be appointed as a director if they are aged 75 or over and more than one-third of the members of the Board of Directors would then be 75 or over. When this upper limit has been exceeded, the oldest director shall automatically be deemed to have resigned at the close of the Ordinary General Meeting to be called to approve the financial statements for the financial year in which the level was breached.

3. The directors may be individuals or legal entities. Upon their appointment, legal entities must designate a permanent representative who is then subject to the same conditions and requirements and who carries the same responsibilities as if appointed a director in his/her own right, without prejudice to the joint and several liability of the legal entity that s/he represents.

   The permanent representative's term in office shall coincide with that of the legal entity that s/he represents.

   If the legal entity terminates the appointment of its permanent representative, it shall be obliged to inform the Company immediately by registered letter of this termination, as well as of the identity of its new permanent representative. The same shall apply in the event of the death, resignation or prolonged unavailability of the permanent representative.

4. Should one or more seats on the Board become vacant through the death or resignation of directors, the Board of Directors may make provisional appointments between two General Meetings.

   It must do so to restore its numbers within three months of the date on which the vacancy arose, when the number of directors has fallen below the minimum level specified in the Articles of Association, without dropping below the statutory minimum.

   The appointments made by the Board shall be subject to ratification at the subsequent Ordinary General Meeting. Even without ratification, the decisions made and the actions performed prior thereto by the Board shall remain valid.

   Where the number of directors has fallen below the statutory minimum, the remaining directors must immediately convene the Ordinary General Meeting with a view to making the requisite number of appointments to the Board.

   The term in office of a co-opted director shall end on the expiry date of the appointment of the director s/he replaced.

5. Individual directors may not belong concurrently to more than five boards of directors or supervisory boards of *sociétés anonymes* [public limited companies] with their registered office in France, subject to exceptions provided for in law.

   An employee of the Company may not be appointed as a director unless his/her employment agreement is for an actual job. S/he does not lose the benefit of this employment agreement.

   The number of directors bound to the Company by an employment agreement may not exceed one-third of the total number of directors.

6. The General Meeting may award a fixed annual sum to directors as directors' fees, and the amount of these fees is left unchanged until a further decision is made. How this sum is divided up between directors shall be determined by the Board of Directors.

   Directors may not receive any permanent or non-permanent forms of remuneration other than those provided for in law.

ARTICLE 15-1 – DIRECTORS REPRESENTING THE EMPLOYEES

In addition to directors, whose number and method of appointment are provided for in Article 15 of these Articles of Association, the Board of Directors shall include directors representing employees in accordance with law No. 2013-504 of 14 June 2013 and subject to the statutory provisions in force and these Articles of Association.

The number of directors representing employees shall be equal to two when the number of directors referred to in Articles L. 225-17 and L. 225-18 of the French Commercial Code exceeds twelve and to one where it is equal to or less than twelve.

When a single director representing employees has to be appointed, s/he is chosen by the Central Works Committee or, in the absence of such a committee, by the Works Committee.

When two directors representing employees have to be appointed, the second is also chosen by the Central Works Committee or, in the absence of such a committee, by the Works Committee.

Should the number of directors referred to in Articles L. 225-17 and L. 225-18 of the French Commercial Code during the course of a financial year exceed twelve, the Chairman of the Board shall, within a reasonable period of time, invite the Central Works Committee or, in the absence of such a committee, the Works Committee, to appoint a second director representing employees whose term in office shall begin at the first meeting of the Board of Directors after his/her appointment.

Should the number of directors referred to in Articles L. 225-17 and L. 225-18 of the French Commercial Code during the course of a financial year fall to twelve or below, the term in office of the director representing employees shall continue until its end, but shall not be renewed if the number of directors remains at twelve or below at the date of his/her reappointment.

The term in office of directors representing employees shall be three years. Their term in office shall begin at the expiry date of the term in office of the outgoing directors representing employees. Their duties shall expire at the close of the General Meeting called to approve the financial statements for the previous financial year, held in the year during which their term in office expires. As an exception to the rule, the first directors representing employees shall take up their office during the first meeting of the Board of Directors after their appointment.

The term in office of directors representing employees shall end automatically in the event of termination of their employment agreement, dismissal in accordance with Article L. 225-32 of the French Commercial Code or in the event of an incompatibility as provided for in Article L. 225-30 of the French Commercial Code.

Subject to the provisions of this article or the law, directors representing employees shall have the same status, the same powers and the same responsibilities as the other directors.

In an exception to the provisions of Article 16 of the Articles of Association, directors representing the employees are not obliged to hold a minimum number of the Company's shares during their term in office.

In the event of a vacancy arising by death, resignation, dismissal, termination of employment agreement or for any other reason among the directors representing employees, the vacancy is filled in accordance with the provisions of Article L. 225-34 of the French Commercial Code. The Board of Directors shall be able to meet and transact business validly prior to the replacement of the director (or, where appropriate, the directors) representing employees.

The provisions of this Article 15-1 shall cease to apply where at the end of a financial year, the Company no longer meets the prior requirements for the appointment of directors representing employees, it being stated that the term in office of any director representing the employees appointed in accordance with this Article shall expire at its end.

ARTICLE 16 – QUALIFYING SHARES

Except for employee directors who are shareholders and directors representing employees, every director must hold at least one of the Company's shares.

If a director does not own the requisite number of shares at the date of his/her appointment or if, during his/her term in office, s/he no longer holds them, s/he is automatically deemed to have resigned unless s/he rectifies the situation within six months.

ARTICLE 17 – MEETINGS OF THE BOARD

1. The Board shall meet as often as required in the interests of the Company when convened by its Chairman.

   When it has not met for more than two months, one-third at least of the members of the Board of Directors may ask the Chairman to convene a meeting to consider a specific agenda.

   The Chief Executive Officer may also ask the Chairman to convene a meeting of the Board of Directors to consider a specific agenda. The Chairman shall be bound by the requests made to him/her.

   Meetings shall be held at the Company's registered office or at any other location indicated in the notice of meeting.

   The notice may be communicated by any and all means. It shall state precisely the matters that will be considered. Notice may even be given orally, and the meeting may take place immediately if all the directors consent.
2. The quorum requirement for the Board to transact business validly is met when at least half the Board members are present.

   The Board of Directors may permit its members to participate in meetings by means of videoconferencing or telecommunications technology where they can be identified and their effective participation in the meeting is guaranteed, subject to the requirements of the regulations in force. These technologies must carry at least the voice of the participants and meet the relevant technical requirements for the continuous and simultaneous transmission of the meeting's proceedings.

   A director may represent another director if granted special powers so to do.

   Decisions shall be made by a majority vote of those members present or represented, except for the choice of the form of executive management. The Chairman holds a casting vote.

   In accordance with the statutory and regulatory requirements, the Board's Internal Rules of Procedure may state that directors participating in Board meetings by videoconferencing technology shall be deemed present for the purpose of calculating the quorum and majority requirements.
3. Executive managers may attend Board meetings at the Chairman's request.
4. Directors, and any person called to attend meetings of the Board of Directors, shall be obliged to treat information of a confidential nature presented as such by the Chairman of the Board of Directors in the strictest confidence.
5. Minutes shall be drawn up, and copies or excerpts of the proceedings are issued and certified as accurate in accordance with the law.

ARTICLE 18 – POWERS OF THE BOARD

The Board of Directors shall set the Company's strategic priorities and oversee their implementation. Subject to the powers expressly granted by law to general meetings and where they do not exceed the scope of the corporate objects, the Board shall consider any matters affecting the smooth running of the Company and settle any issues concerning it.

The Company shall remain bound by even those actions of the Chief Executive Officer that fall outside of the Company's corporate objects, unless the Company can prove that the third party knew that such action fell outside of the scope of its corporate objects, or could not have failed to know in the circumstances. Publication of the Articles of Association shall not itself constitute sufficient proof thereof.

The Board of Directors shall conduct the controls and checks that it deems appropriate. Each director shall receive all the requisite information to carry out his/her duties and may ask to receive any and all documents that s/he deems useful.

ARTICLE 19 – CHAIRMAN OF THE BOARD OF DIRECTORS

1. The Board of Directors shall elect, from among its members, a Chairman, who must be a natural person, and shall set his/her remuneration.

   The Chairman is appointed for a period of time that may not exceed the duration of his/her appointment as a director. S/he may be reappointed.

   The Chairman of the Board of Directors may not be more than 80 years of age. Should a Chairman reach this age limit, s/he shall be deemed to have resigned.

   He/she may be removed from office at any time by the Board of Directors. Any provision to the contrary shall be deemed nugatory.

   In the event of the temporary unavailability or the death of the Chairman, the Board of Directors may delegate to a director the duties of Chairman.

   In the event of temporary unavailability, these duties shall be delegated for a limited period of time. The delegation of duties may be extended for a further period. Where the Chairman has died, the delegation shall be valid until a new Chairman has been elected.
2. The Chairman of the Board of Directors shall represent the Board of Directors. The Chairman shall organise and lead the Board's work and report to the shareholders thereon at General Meetings. He is responsible for the smooth running of the Company's governing bodies and in particular for making sure that directors are able to perform their duties.

   The Chairman of the Board of Directors shall be informed by the relevant party of agreements concerning continuing transactions entered into on an arm's length basis. The Chairman shall communicate a list and the purpose of the aforementioned agreements to members of the Board and the Statutory Auditors.

ARTICLE 20 – HONORARY CHAIRMAN

The Board of Directors may appoint one or more Honorary Chairmen. This honorific title is awarded to an individual who previously served as Chairman of the Board of Directors. The Honorary Chairman may be invited to attend meetings of the Board of Directors, solely in a consultative capacity. S/he must adhere to the Board's Internal Rules of Procedure.

ARTICLE 21 – EXECUTIVE MANAGEMENT

1. The Company's executive management shall be the responsibility of an individual appointed by the Board of Directors and bearing the title of Chief Executive Officer.

   The Board of Directors, acting on a proposal by the Chief Executive Officer, may appoint one or more individuals to assist the Chief Executive Officer, with the title of Chief Operating Officer(s). The number of Chief Operating Officers may not exceed five.

   The Chief Executive Officer may be removed from office at any time by the Board of Directors. The same shall apply to the Chief Operating Officers on the recommendation of the Chief Executive Officer. Compensation may have to be paid in the event of an unfair dismissal unless the Chief Executive Officer also acts as Chairman of the Board of Directors.

   The Chief Executive Officer may not be more than 75 years of age. Should s/he reach this age limit, s/he shall be deemed to have resigned.

   Should the Chief Executive Officer cease to exercise or become prevented from exercising his/ her duties, the Chief Operating Officers shall, unless decided otherwise by the Board, maintain their positions and powers until the appointment of a new Chief Executive Officer.

   The Board of Directors shall determine the remuneration of the Chief Executive Officer and the Chief Operating Officer(s).

2. The Chief Executive Officer shall hold the broadest powers to act on the Company's behalf in all circumstances. S/he shall exercise these powers within the limits of the corporate objects and subject to those that the law expressly allocates to General Meeting of Shareholders and to the Board of Directors.

   S/he shall represent the Company in its dealings with third parties. The Company shall remain bound by even those actions of the Chief Executive Officer that fall outside of the Company's corporate objects, unless the Company can prove that the third party knew that such action fell outside of the scope of its corporate objects, or could not have failed to know in the circumstances. Publication of the articles of association shall not itself constitute sufficient proof thereof.

   The decisions by the Board of Directors restricting the powers of the Chief Executive Officer shall not be binding on third parties.

3. In conjunction with the Chief Executive Officer, the Board of Directors shall determine the scope and duration of the powers granted to the Chief Operating Officers. Chief Operating Officers shall have the same powers vis-à-vis third parties as the Chief Executive Officer.

4. The Chief Executive Officer or the Chief Operating Officers may, within the restrictions laid down in the legislation in force, delegate the powers they deem appropriate, for one or more stated purposes, to any agents or representatives, who may even be from outside the Company, either individually or as a committee or commission. These powers may be permanent or temporary, and may or may not include the option to make replacements. The powers granted shall retain their full force even if the duties of the person who delegated them come to an end.

7.1.4 SHAREHOLDER MEETINGS

Articles 24 to 28 of the Articles of Association govern the powers, process of providing notice, the right to attend and the decision-making process at general meetings, and the right to receive relevant information and documents.

ARTICLE 24 – POWERS OF GENERAL MEETINGS

24.1. Collective decisions of the shareholders shall be made at General Meetings, which are classified as either Ordinary or Extraordinary.

An Ordinary General Meeting shall make any decisions not involving amendments to the Articles of Association. The Extraordinary General Meeting shall have sole authority to amend any provisions of the Articles of Association.

24.2. The Ordinary General Meeting shall meet at least once a year within six months of the end of the financial year. The Ordinary General Meeting shall be deemed to transact business validly at the first time of calling only if shareholders present, represented or having cast their votes by post account for at least one-fifth of the shares with voting rights. For an adjourned meeting, no quorum shall apply.

Resolutions shall be passed if they are supported by a majority of the votes cast by shareholders present, represented or having cast their votes by post.

24.3. The Extraordinary General Meeting may amend any provisions of the Articles of Association, provided that it does not increase shareholders' obligations.

The Extraordinary General Meeting shall be deemed to transact business validly only if shareholders present, represented or having cast their votes by post account for at least one-quarter of the shares with voting rights at the first time of calling or one-fifth of the shares with voting rights at an adjourned meeting.

If the quorum for the adjourned meeting is not met, the meeting may be adjourned to a subsequent date within two months of the original date of the adjourned meeting, and the same quorum requirement of one-fifth of shares with voting rights shall apply.

Resolutions shall be passed if they are supported by a majority of two-thirds of the votes cast by shareholders present, represented or having cast their votes by post.

ARTICLE 25 – NOTICE OF GENERAL MEETINGS

General Meetings of the Shareholders are called by the Board of Directors.

Failing that, a General Meeting of Shareholders may also be called by:

- the Statutory Auditors;
- a representative appointed by court order at the request of any interested individual for urgent matters, that is one or more shareholders together owning at least 5% of the share capital, or a group of shareholders as provided for in Article L. 225-120;
- the liquidators;

- those shareholders holding a majority of the share capital or voting rights after a public tender or share exchange offer or the sale of a controlling block.

General Meetings of Shareholders are called in accordance with the provisions of law.

The person calling the meeting is responsible for setting the agenda to be considered and drafting the resolutions to be put to the General Meeting of Shareholders.

However, the Board of Directors must add to the agenda any matters and draft resolutions proposed by the shareholders in accordance with the provisions of the law.

General Meetings shall be held at the Company's registered office or at any other venue indicated in the same department as the registered office or in a neighbouring department.

If so decided by the Board of Directors when the General Meeting is called, shareholders may attend General Meetings of Shareholders by videoconference or any electronic means of communication including the internet, in accordance with the applicable provisions of the regulations in force at the time. Where applicable, this decision shall be published in each notice of meeting and the relevant arrangements.

ARTICLE 26 – RIGHT TO ATTEND GENERAL MEETINGS

26.1. All shareholders shall have the right to attend Ordinary and Extraordinary General Meetings of Shareholders and to participate in the proceedings, in person or by proxy, in accordance with Article L. 225-106 of the French Commercial Code.

The right of shareholders to attend Ordinary or Extraordinary General Meetings of Shareholders is contingent upon an entry in the accounts of the shares in the name of the shareholder - or of the intermediary registered on his/her behalf if the shareholder is resident abroad - by the statutory deadline:

- in the case of registered shares, registration in the shareholders' register kept by the Company;
- in the case of bearer shares, registration in an account with an authorised intermediary that is required to issue a certificate in accordance with the provisions of the law.

Shareholders may appoint any person or legal entity of their choosing as proxy in accordance with the applicable regulations. They may also vote by mail in accordance with the provisions of the laws and regulations by sending a proxy form or mail voting form for any General Meeting of Shareholders either in paper form or, if permitted by the Board of Directors as stated in each notice of meeting, in electronic form.

Should the Board of Directors decide to permit such arrangements, when an admission, proxy or electronic voting form is issued, the electronic signature shall be predicated on use of a reliable identification process guaranteeing its link with the electronic form to which it relates. This may involve the use of a user ID and password, or any other mechanism provided for or authorised by the regulations in force.

Each share carries one vote, with the exception of shares with double voting rights pursuant to and subject to the restrictions laid down in Article L. 225-123 of the French Commercial Code and as stipulated in Article 7 hereinabove. Voting rights attached to shares encumbered by a beneficial interest shall be cast by the beneficial owner at Ordinary General Meetings and the bare owner at Extraordinary General Meetings. However, the bare owner shall always have the right to attend General Meetings.

In the absence of the Chairman of the Board of Directors, General Meetings shall be chaired by the Vice-Chairman of the Board of Directors or by a director duly chosen for such purpose by the Board of Directors. Failing that, the Meeting itself shall elect a Chairman.

The minutes of General Meetings shall be prepared, and copies certified as accurate and issued in accordance with the law.

26.2. The Company may request at its expense from the centralised body approved by decree the name and address of holders of the Company's bearer shares carrying immediately or in the future the right to vote at its General Meetings, and the number of shares held by each of them.

An intermediary registered as provided for in Article L. 228-1 of the French Commercial Code shall be required under the conditions provided for in the *Conseil d'État* decree to disclose, upon a simple request by the Company or its agent, which may be made at any time, the identity of the holders of shares held in registered form conferring rights to the share capital immediately or in the future.

ARTICLE 27 – DECISIONS MADE BY GENERAL MEETINGS

I. – An attendance register shall be kept at each General Meeting. This attendance register, which is duly initialled by the shareholders present and their proxies, shall be certified as accurate by the Officers of the General Meeting.

II. – General Meetings shall be chaired by the Chairman of the Board of Directors or, in his/her absence, by a director designated for such purpose by the Board.

The duties of scrutineer shall be performed by the two shareholders present and accepting such duties holding, either in their own right or as representatives, the largest number of votes.

The Officers of the Meeting shall designate a secretary who may or may not be a shareholder.

III. – The proceedings of the General Meetings shall be recorded in minutes on a special register, numbered and initialled in accordance with the regulations.

These minutes shall be signed by the Officers of the Meeting.

ARTICLE 28 – RIGHT TO RECEIVE RELEVANT INFORMATION

In advance of each General Meeting, every shareholder shall have the right of access to documents enabling him/her to arrive at an informed opinion and to pass judgement on the management and operation of the Company.

The nature of these documents and the conditions for them to be sent or made available to shareholders are laid down in the regulations.

7.1.5 RIGHTS, PRIVILEGES AND RESTRICTIONS ATTACHED TO SHARES

Articles 7, 11, 12, 13 and 30 of the Company's Articles of Association lay down the arrangements for double voting rights, the form and transfer of shares, disclosures of notifiable interests, and the appropriation and distribution of profits.

Furthermore, shareholders shall have, in proportion to the amount of their shares, a pre-emption right to subscribe for shares issued for cash consideration as part of a capital increase. The General Meeting of Shareholders (or the Board of Directors acting under the authority of the General Meeting) that approves the capital increase may disapply the pre-emption right, in view of the report by the Board of Directors and the report by the Statutory Auditor(s).

ARTICLE 7 – SHARE CAPITAL

The share capital amounts to eighty million seven hundred and thirty-two thousand nine hundred and three euros and seventy-five euro cents (€80,732,903.75).

It is made up of sixty-four million five hundred and eighty-six thousand three hundred and twenty three (64,586,323) shares, each with a nominal value of €1.25, all of which belong to the same class and are fully paid-up.

That said, all fully-paid shares that have been registered in the same shareholder's name for at least two years, in accordance with and subject to the restrictions laid down in Article L. 225-123 of the French Commercial Code shall carry double voting rights.

In the event of a capital increase by way of capitalisation of reserves, profits or share premiums, double voting rights shall accrue upon their issue to the bonus shares issued to shareholders in respect of shares already carrying double voting rights.

ARTICLE 11 – FORM OF SHARES

I. – Shares shall be held either in registered or bearer form, as the shareholder elects, subject to statutory or regulatory requirements that may require registered form in certain cases.

II. – Irrespective of their form, shares shall be held in accounts kept under the terms and conditions provided for in Decree No. 83-359 of 2 May 1983.

Ownership of the shares is evidenced by an account entry:

- at the authorised financial intermediary of their choosing for bearer shares;
- at the Company and should they so wish, at authorised intermediary of their choosing for registered shares.

ARTICLE 12 – TRANSFER OF SHARES

Any transfer or transmission of shares in either registered or bearer form shall take place by means of a transfer from one account to another.

ARTICLE 13 – OWNERSHIP OF SHARE CAPITAL

All shareholders must comply with the statutory disclosure requirements, if, acting alone or in concert, they come to hold a percentage of the share capital or voting rights laid down in the French Commercial Code.

Failure to comply with the notification requirements will result in the shares that should have been notified being disqualified for voting purposes at all General Meetings held for a period of two years after the date on which the requisite notification is finally made.

Similarly, the voting rights attached to shares that have not been duly and properly notified may not be exercised by the defaulting shareholder in person or by proxy.

ARTICLE 30 – PROFITS AND LOSSES

After deduction of any prior year losses, at least one twentieth of the year's net profit is transferred to the statutory reserve, until such time as it has reached a sum equal to one tenth of the Company's share capital, and again at any time should it fall back below that minimum requirement for any reason.

The balance, plus any retained earnings from prior years, shall constitute the profit available for distribution.

The shareholders shall have sole discretion over the allocation of this profit. Accordingly, the shareholders may resolve to allocate all or part of it to retained earnings, to one or more general or special reserve accounts, or to the shareholders as a dividend. The shareholders may also resolve to distribute sums from other reserves to which they are entitled, either to pay or supplement the dividend or as an exceptional distribution; in this case, their resolution shall expressly indicate which reserve accounts are to be used.

However, no distribution may be made if it would cause the Company's net equity to fall below the amount of its share capital plus any non-distributable reserves.

The General Meeting shall have the option to offer shareholders the choice between payment of all or part of the interim dividend or dividend in cash and/or in the Company's shares, while complying with statutory and regulatory requirements.

Any losses, after approval of the financial statements by the General Meeting of Shareholders, are recorded on a special balance sheet account and deducted from net profits in the future years until extinguished.

7.2 INFORMATION ON THE SHARE CAPITAL

7.2.1 CHANGES IN AND OWNERSHIP OF THE SHARE CAPITAL AND VOTING RIGHTS

At 31 December 2017, the Company's share capital stood at €80,691,403.75, made up of 64,553,123 shares with a par value of €1.25, fully paid up and belonging to the same class. The total unadjusted number of voting rights was 84,323,682 and the number of exercisable voting rights was 84,287,652. Shares are either in registered or bearer form, at the choice of the shareholder.

Pursuant to Article 223-11 of the AMF General Regulation, voting rights are presented according to their "theoretical" calculation, based on the total number of shares to which a voting right is attached, including shares stripped of their voting rights (treasury shares). These theoretical voting rights are used to calculate the crossing of investment thresholds.

The table below shows changes in the share capital, voting rights and their ownership between 31 December 2015 and 31 December 2017.

	31/12/2017(1)				31/12/2016				31/12/2015(2)			
Shareholders	Number of shares	% of the share capital	Number of voting rights	% of voting rights	Number of shares	% of the share capital	Number of voting rights	% of voting rights	Number of shares	% of the share capital	Number of voting rights	% of voting rights
J.C. Marian	4,133,109	6.40%	8,266,218	9.80%	4,133,109	6.86%	8,266,218	10.22%	4,133,069	6.86%	7,881,819	11.69%
CPPIB	9,193,192	14.24%	18,245,038	21.64%	8,870,854	14.72%	17,663,707	21.83%	8,792,854	14.59%	8,792,854	13.04%
FFP Invest	3,811,353	5.90%	7,622,706	9.04%	3,811,353	6.32%	7,622,706	9.42%	3,811,353	6.32%	7,622,706	11.30%
SOFINA group	2,380,000	3.69%	4,760,000	5.64%	3,180,000	5.28%	6,360,000	7.86%	3,180,000	5.28%	3,180,000	4.72%
Treasury shares	36,030	0.06%	-	0.00%	8,731	0.01%	-	0.00%	11,442	0.02%	-	0.00%
Public	44,999,439	69.71%	45,429,720	53.88%	40,269,644	66.81%	40,997,323	50.67%	40,344,973	66.94%	39,954,057	59.25%
TOTAL	**64,553,123**	**100.00%**	**84,323,682**	**100.00%**	**60,273,691**	**100.00%**	**80,909,954**	**100.00%**	**60,273,691**	**100.00%**	**67,431,436**	**100.00%**

(1) In 2017, the Company's share capital was increased by €5,349,290 through the issue of 4,279,432 new shares following the conversion of the 2013 ORNANE bonds and the bonus allotment of shares to executive officers and certain senior managers.
(2) In 2015, the Company's share capital was increased by €5,882,247.50 through the issue of 4,705,798 new shares following the early redemption of all the OCEANE convertibles due 2016 outstanding and the exercise of OBSAARs (see page 45 of the 2016 Registration Document).

The Company is not aware of any shareholders' agreement or other agreement relating to its share capital.

The table below shows a summary of the increases in capital that took place in 2017.

Date	Share capital prior to increase	Amount of capital increase	Share capital after increase	Reason for capital increase
28 February 2017	€75,342,113.75	€76,896.25	€75,419,010.00	Conversion of 2013 ORNANE bonds
17 March 2017	€75,419,010.00	€116,636.25	€75,535,646.25	Conversion of 2013 ORNANE bonds
10 April 2017	€75,535,646.25	€102,812.50	€75,638,458.75	Bonus share allotment
18 April 2017	€75,638,458.75	€25,486.25	€75,663,945.00	Conversion of 2013 ORNANE bonds
31 May 2017	€75,663,945.00	€96,000.00	€75,759,945.00	Conversion of 2013 ORNANE bonds
31 October 2017	€75,759,945.00	€4,931,458.75	€80,691,403.75	Conversion of 2013 ORNANE bonds

On **10 April 2018,** the Company's share capital was increased by €41,500 from €80,691,403.75 to €80,732,903.75 following the bonus allotment of shares to certain senior managers.

7.2.2 FINANCIAL INSTRUMENTS CONFERRING RIGHTS TO THE SHARE CAPITAL

BONDS CONVERTIBLE INTO NEW SHARES AND/OR EXCHANGEABLE FOR EXISTING SHARES ("ORNANE BONDS")

On 17 July 2013, the Company issued at par 4,260,631 ORNANEs, each with a nominal unit value of €46.56, bearing interest at an annual rate of 1.75% and redeemable at par on 1 January 2020. The arrangements are presented in the securities note approved by the AMF with visa No. 13-338 on 9 July 2013 (the "**Securities Note**").

At the date of issue, the conversion ratio was 1 ORPEA share per ORNANE bond. Following the dividends paid out in 2013, 2014, 2015, 2016 and 2017, the conversion ratio was increased with effect from 7 July 2017 to 1.068 ORPEA shares per ORNANE bond, as provided for in section 4.16.7 of the Securities Note.

During FY 2017, a number of ORNANE bondholders exercised their right to the allotment of shares, which resulted in several increases in the Company's share capital (see section 7.2.1 above). Furthermore, following the early redemption on 19 October 2017 of the remaining ORNANE bonds outstanding in accordance with section 4.9.3 ("Early Redemption at the Option of the Company") of the Securities Note, there were no ORNANE bonds left outstanding at 31 December 2017.

STOCK OPTIONS, BONUS SHARE ALLOTMENTS AND EMPLOYEE SHARE OWNERSHIP

Over the past two years, the Board of Directors has approved the introduction of several bonus share allotment plans for executive officers and for certain senior managers. The allotment of bonus shares is contingent upon satisfaction of exacting performance conditions and aims to reward a high level of performance, retain the loyalty of key managers and align the interests of senior executives with those of shareholders. The table below shows the main features of these plans.

Information on bonus share allotments	Plan No. 1	Plan No. 2	Plan No. 3	Plan No. 4	Plan No. 5
Date of General Meeting	6 Nov. 2015	6 Nov. 2015	23 June 2016	23 June 2016	23 June 2016
Date of Board meeting	10 Feb. 2016	10 Feb. 2016	4 May 2017	13 Dec. 2017	13 Dec. 2017
Maximum total number of bonus shares that may be allotted	82,250	33,200	29,514	13,000	13,000
Vesting date of the shares	10 April 2017	10 April 2018	4 May 2019	13 Dec. 2020	13 Dec. 2021
End date of holding period	10 April 2019	10 April 2020	4 May 2021	13 Dec. 2021	13 Dec. 2021
Performance conditions	Revenue and EBITDA(1)	Revenue and EBITDA(1)	Total shareholder return (share price increase + dividend)(2)	Revenue and EBITDA(3)	Revenue, EBITDA and organic growth(4)
Number of shares vested at 31 December 2017	82,250	N/A	N/A	N/A	N/A
Total number of shares cancelled or voided	-	N/A	N/A	N/A	N/A
Bonus shares allotted not yet vested at 31 December 2017	N/A	33,200	29,514	13,000	13,000

(1) Revenue and EBITDA targets set in the 2015 and 2016 budgets as presented to the Company's Board of Directors.
(2) Should ORPEA's total shareholder return (share price increase dividends included) exceed the average performance of the MSCI Europe ex. UK index and the CAC 40 index, including dividends paid, by 10% or more during FY 2017 and FY 2018, all the bonus ORPEA shares will vest definitively.
Should ORPEA's total shareholder return (share price increase dividends included) be equal to or below the average performance of the MSCI Europe ex. UK index and the CAC 40 index, including dividends paid, during FY 2017 and FY 2018, no ORPEA shares will vest definitively.
Should ORPEA's total shareholder return (share price increase dividends included) exceed the average performance of the MSCI Europe ex. UK index and the CAC 40 index, including dividends paid, by between 0% and 10% during FY 2017 and FY 2018, the number of ORPEA shares vesting definitively with each allottee will be calculated proportionally on a straight-line basis between those two points. Where a full number of ORPEA shares is not produced by this calculation, the number will be rounded down.
The reference period used to assess attainment of this condition is the average of ORPEA's share price performance over the period from 1 January 2019 to 30 April 2019, plus the dividend in respect of FY 2018, compared with the same average over the period from 1 January 2017 to 30 April 2017, plus the dividend paid in respect of FY 2016.
(3) Revenue and EBITDA targets set in the 2018 and 2019 budgets as presented to the ORPEA's Board of Directors.
(4) Revenue and EBITDA targets set in the 2018 and 2019 budgets as presented to the ORPEA's Board of Directors, average rate of organic growth in 2018 and 2019, average EBITDA in 2018 and 2019.

There are no stock option plans or Group savings plan (or similar plan) allowing ORPEA to know the exact number of shares held by employees.

8.

Additional information

8.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

8.1.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Yves Le Masne, Chief Executive Officer.

8.1.2 STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Having taken all reasonable care to ensure that such is the case, I certify that to the best of my knowledge all of the information contained in the registration document is in accordance with the facts and contains no omissions likely to affect its import.

I certify that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and profit or loss of the Company and all consolidated companies, and that the management report in this Registration Document presents a true and fair view of the business trends, results and financial position of the Company and all consolidated companies and that it describes the main risks and uncertainties to which they are exposed.

I have received an audit completion letter *(lettre de fin de travail)* from the Statutory Auditors, in which they state that they have verified the information relating to the Group's financial position and financial statements contained in this Registration Document and that they have read through the document.

Puteaux, 16 May 2018

8.1.3 INVESTOR RELATIONS CONTACTS

ORPEA

Yves Le Masne – Chief Executive Officer – Tel.: +33 (0)1 47 75 78 07

Steve Grobet – Head of Investor Relations – Tel.: +33 (0)1 47 75 74 66 – s.grobet@orpea.net

8.2 STATUTORY AUDITORS

8.2.1 PRINCIPAL STATUTORY AUDITORS

- Saint-Honoré BK&A

  Represented by Emmanuel Klinger

  140, rue du Faubourg-Saint-Honoré – 75008 Paris

Saint-Honoré BK&A was first appointed at the General Meeting of Shareholders of 27 June 2008 for term of six years. It was reappointed at the Annual General Meeting of Shareholders of 25 June 2014 for a term of six years ending at the close of the Ordinary General Meeting to be held to approve the 2019 financial statements.

- Deloitte & Associés

  Represented by Jean-Marie Le Guiner

  185, avenue Charles-de-Gaulle - 92200 Neuilly-sur-Seine

Deloitte & Associés was first appointed at the Annual General Meeting of 29 June 2006 to replace Vademecum, which stood down for personal reasons. Its appointment ran from 1 January 2006 until the end of its predecessor's term, that is until the close of the Annual General Meeting held to approve the 2009 financial statements.

Deloitte & Associés was reappointed at the Annual General Meeting of Shareholders of 23 June 2016 for a term of six years ending at the close of the Annual General Meeting to be held to approve the 2021 financial statements.

8.2.2 ALTERNATE STATUTORY AUDITORS

- Saint-Honoré SEREG

  Alternate to Saint-Honoré BK&A

  140, rue du Faubourg-Saint-Honoré – 75008 Paris

Appointed at the General Meeting of Shareholders of 25 June 2014 for a term of six years ending at the close of the Annual General Meeting held to approve the 2019 financial statements.

- BEAS

  Alternate to Deloitte & Associés

  7-9, villa Houssay – 92200 Neuilly-sur-Seine

Reappointed at the same time and for the same term as Deloitte & Associés, replacing Françoise Vainqueur, joint alternate Statutory Auditor, who resigned for personal reasons.

8.3 DOCUMENTS ON DISPLAY

This Registration Document is available for download from ORPEA's (www.orpea-corp.com) and the AMF's (www.amf-france.org) websites. Copies of this Registration Document are available upon request from the Company.

During the period of validity of this Registration Document, ORPEA's Articles of Association, its annual and consolidated financial statements, and its press releases on financial and regulatory matters are available from its website.

ORPEA's legal and financial documents that must be made available to shareholders in accordance with the regulations in force may be viewed either on the Company's website or at the Company's registered office.

8.4 CROSS-REFERENCE TABLE

The following cross-reference table identifies the information required by Annex I of EU Regulation No. 809/2004 of 29 April 2004 with references to the pages of this Registration Document on which the relevant disclosures are made.

Design and production: côtécorp. Tel.: 01 55 32 29 74

Photo credits: © ORPEA.

ORPEA
GROUP

CONTACT
12, rue Jean Jaurès - CS 10032
92 813 Puteaux Cedex
Email: financegroupe@orpea.net
www.orpea-corp.com