ORPEA

CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

SA ORPEA *Société Anonyme* [public limited company] with share capital of €75,342,114
Registered on the Nanterre Trade and Companies Registry under no. 401 251 566/APE Code 853 D

Registered office: 12 rue Jean Jaurès - CS 10032 - 92813 Puteaux Cedex

ORPEA GROUPE

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Consolidated income statement

(€ thousand)	Notes	2016	2015
Revenue		2,841,225	2,391,604
Purchases used and other external expenses		(817,369)	(698,551)
Staff costs		(1,467,301)	(1,216,688)
Taxes other than on income		(96,555)	(90,731)
Depreciation, amortisation and charges to provisions		(126,456)	(96,893)
Other recurring operating income		24,036	22,784
Other recurring operating expense		(9,510)	(8,008)
Recurring operating profit		348,070	303,517
Other non-recurring operating income	3.20	167,887	177,042
Other non-recurring operating expense	3.20	(144,975)	(157,572)
Operating profit		370,982	322,988
Financial income		13,876	15,264
Financial expense		(125,427)	(112,081)
Net interest expense	3.21	(111,551)	(96,817)
Change in FVO (*)	3.13	(1,800)	(43,000)
Pre-tax profit		257,631	183,171
Income tax expense	3.22	(85,000)	(60,015)
Impact of the measurement of deferred taxes at the rate expe	3.22	80,000	
Share in profit/(loss) of associates and joint ventures	3.5	3,817	3,429
Consolidated net profit		256,448	126,586
Attributable to non-controlling interest		9	(48)
Attributable to owners of the parent		**256,440**	**126,634**
Net profit attributable to owners of the parent excluding net change in FVO (*)		257,620	153,294
Number of shares		60,273,691	60,273,691
Basic earnings per share (€)		4.26	2.12
Diluted earnings per share (€)		4.26	2.12

(*) 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

(€ thousand)		2016	2015
Net profit for the year	*a*	**256,440**	**126,634**
Change in exchange differences			19,054
Change in fair value of available-for-sale financial assets			
Cash flow hedges		(621)	19,992
Tax effect on items that may be reclassified to profit or loss		214	(7,597)
Total items that may be reclassified to profit or loss	*b*	(407)	31,450
Comprehensive income net of items that may be reclassified to profit or loss	*a+b*	**256,033**	**158,083**
Actuarial gains/(losses)		(2,704)	4,027
Revaluation of property assets		60,000	18,000
Impact of the measurement of deferred taxes at the rate expected to apply		22,000	
Tax effect on items that may not be reclassified to profit or loss		(19,702)	(9,010)
Total items that may not be reclassified to profit or loss	*c*	59,594	13,016
Comprehensive income net of items that may not be reclassified to profit or loss	*a+b+c*	**315,627**	**171,099**
Other comprehensive income (net of tax)	*b+c*	**59,187**	**44,466**
Comprehensive income	*a+b+c*	**315,627**	**171,099**

Consolidated balance sheet

(€ thousand)	Notes	31 Dec. 2016	31 Dec. 2015
Assets			
Goodwill	3.1	982,106	841,532
Intangible assets, net	3.2	1,889,176	1,751,217
Property, plant and equipment, net	3.4	3,632,401	3,008,814
Properties under construction	3.4	442,643	436,301
Investments in associates and joint ventures	3.5	62,235	58,184
Non-current financial assets	3.6	34,248	36,934
Deferred tax assets	3.22	38,424	36,389
Non-current assets		**7,081,232**	**6,169,371**
Inventories		8,369	8,076
Trade receivables	3.7	148,330	127,409
Other assets, accruals and prepayments	3.8	407,689	347,542
Cash and cash equivalents	3.12	539,924	518,925
Current assets		**1,104,312**	**1,001,952**
Assets held for sale	3.9	**140,020**	**200,000**
Total assets		**8,325,564**	**7,371,324**
Liabilities and equity			
Share capital		75,342	75,342
Consolidated reserves		1,433,636	1,356,321
Revaluation reserves		310,410	251,223
Net profit for the year		256,440	126,634
Equity attributable to owners of the parent	3.10	**2,075,828**	**1,809,520**
Non-controlling interest		199	190
Total consolidated equity		**2,076,027**	**1,809,710**
Non-current financial liabilities	3.12	3,801,254	3,218,989
Change in the fair value of the entitlement to the allotment of shares embedded in the ORNANE bonds	3.13	74,793	72,993
Provisions	3.11	143,108	86,243
Post-employment and related benefit obligations	3.11	63,919	51,215
Deferred tax liabilities	3.22	784,703	851,714
Non-current liabilities		**4,867,776**	**4,281,153**
Current financial liabilities	3.12	418,531	314,218
Provisions	3.11	25,304	23,241
Trade payables	3.15	232,019	254,137
Tax and payroll liabilities	3.16	226,587	215,141
Current income tax liabilities	3.16	15,041	
Other liabilities, accruals and prepayments	3.17	324,259	273,724
Current liabilities		**1,241,741**	**1,080,460**
Debt associated with assets held for sale		**140,020**	**200,000**
Total equity and liabilities		**8,325,564**	**7,371,324**

The accompanying notes are an integral part of the financial statements.

Consolidated statement of cash flows

(€ thousand)	Notes	2016	2015
Cash flow from operating activities			
Net profit of consolidated companies		256,440	126,634
Elimination of non-cash income and expense related to operating activities (*)		37,905	93,933
Net interest expense	3.21	111,551	96,817
Gains on asset disposals not related to operating activities, net of tax		(19,669)	(16,497)
Cash generated by consolidated companies		**386,227**	**300,887**
Change in the operating working capital requirement			
- Inventories		(188)	(788)
- Trade receivables	3.7	(17,623)	5,536
- Other receivables	3.8	68,128	63,989
- Tax and payroll liabilities		14,152	(30,233)
- Trade payables	3.15	(43,569)	39,023
- Other liabilities	3.17	(60,418)	(64,475)
Net cash generated by operating activities		**346,709**	**313,939**
Cash flow from investing and development activities			
Property investments		(795,032)	(945,696)
Disposals of property assets		139,378	209,825
Other acquisitions and changes		(130,857)	(278,330)
Net cash generated/(used by) investing activities		**(786,511)**	**(1,014,201)**
Cash flow from financing activities			
Proceeds from capital increases	3.10		6,039
Dividends paid to shareholders of the parent	3.10	(54,246)	(44,454)
Net cash inflows/(outflows) related to bridging loans and bank overdrafts	3.12	(95,956)	(26,313)
Proceeds from new finance leases	3.12	228,204	284,920
Proceeds from new borrowings	3.12	966,645	1,041,426
Repayments of borrowings	3.12	(340,447)	(486,484)
Repayments under finance leases	3.12	(131,848)	(81,036)
Net interest expense and other movements	3.21	(111,551)	(96,817)
Net cash generated/(used by) financing activities		**460,801**	**597,281**
Change in cash and cash equivalents		**20,999**	**(102,981)**
Cash and cash equivalents at beginning of period		518,925	621,906
Cash and cash equivalents at end of period		**539,924**	**518,925**
Analysis of cash and cash equivalents at end of period		**539,924**	**518,925**
Short-term investments	3.12	35,816	27,101
Cash	3.12	504,108	491,824

The accompanying notes are an integral part 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 redevelopment costs and non-recurring expenses arising from the acquisition of facilities.

Equity

Statement of changes in consolidated equity

(€ thousand) *except for the number of shares*	Number of shares	Share capital	Share premiums	Revaluation reserves	Other reserves	Profit or loss	Total attributable to owners of the parent	Non-controlling interests	Total
31 Dec. 2014	**55,567,893**	**69,460**	**476,121**	**225,812**	**605,797**	**120,777**	**1,497,968**	**379**	**1,498,346**
Change in fair value of properties				11,160			11,160		11,160
Post-employment benefit obligations				1,856			1,856		1,856
Financial instruments				12,395			12,395		12,395
Exchange differences					19,054		19,054		19,054
Other							0		0
Changes in fair value recognised directly in equity		**0**	**0**	**25,411**	**19,054**	**0**	**44,466**	**0**	**44,466**
Appropriation of net profit			(35,000)		111,322	(120,777)	(44,454)		(44,454)
2015 net profit						126,634	126,634	(48)	126,586
Exercise of stock options							0		0
Exercise of BSAAR share warrants	169,210	212	5,828				6,039		6,039
Exercise of OCEANE convertibles	4,536,588	5,671	173,226				178,897		178,897
Capital increase							0		0
Other					(28)		(28)	(140)	(168)
31 Dec. 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						256,440	256,440	9	256,449
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 Dec. 2016	**60,273,691**	**75,342**	**580,106**	**310,410**	**853,530**	**256,440**	**2,075,828**	**199**	**2,076,027**

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At 31 December 2016

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Notes to the consolidated financial statements

Amounts are stated in thousands of euros unless otherwise stated.

The 2016 consolidated financial statements for the ORPEA Group were approved by the Board of Directors on 27 April 2017.

1. SIGNIFICANT ACCOUNTING POLICIES

ORPEA SA is a French company that has its registered office at 12 rue Jean Jaurès, 92813 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 1606/2002 of 19 July 2002, the ORPEA Group has prepared its 2016 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 2016 and applicable to the ORPEA Group are:

- Amendments to IAS 16 and IAS 38: Property, Plant and Equipment and Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 1: Presentation of Financial Statements – Disclosure Initiative
- Amendments to IAS 19: Employee Contributions to Defined Benefit Plans
- Amendments to IFRS 10, IFRS 12, IAS 28: Investment Entities: Applying the Consolidation Exception
- Annual improvements to IFRS - 2010-2012 and 2012-2014 cycles

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 beginning on or after 31 December 2016. These standards are:

Standards adopted by the European Union that are not mandatory for the financial year:
- IFRS 15: Revenue from Contracts with Customers
- IFRS 9: Financial Instruments

Standards not yet adopted by the European Union:
- Amendments to IAS 12: Income Taxes
- Amendments to IAS 7: Statement of Cash Flows: Disclosures
- IFRS 14: Regulatory Deferral Accounts
- IFRS 16: Leases

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Clarifications of IFRS 15
- Annual improvements to IFRS (2014-2016 cycle)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40: Transfers of Investment Property

The impact of these standards and amendments is currently being analysed.

The consolidated financial statements and notes thereto are presented in euros.

<u>Background information about the decision to measure operating properties in accordance with IAS 16</u>

The Group elected with effect from its financial statements for the year ended 31 December 2007 to measure its fully or jointly-owned operating properties, land and buildings in full or joint ownership 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 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
- inputs used in impairment testing of intangible assets and property, plant and equipment
- provisions for post-employment and lump-sum benefit obligations (assumptions described in Note 3.11)
- provisions for liabilities and litigation
- financial instruments

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 new facilities acquired in Spain and Switzerland since 2014 and those acquired in Austria since 2015.

Operating licences for certain foreign facilities, such as hospitals and nursing homes in Germany, 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 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.

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 and Austria.

These licences are considered to have an indefinite useful life, which is consistent with the Group's leading position in the industry. This status 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.

This fair value is estimated according to 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.

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.

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 1 and 10 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 cost less accumulated depreciation and 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 now capitalised as part of the cost of that asset, as required by IAS 23 - Borrowing Costs.

Revaluation of operating properties

Properties held mainly under finance leases, comprising land and buildings and operated by the Group are measured at fair value in accordance with paragraph 31 of IAS 16 - Property, Plant and Equipment.

The fair value of the properties is reviewed by external professionally qualified valuers. 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 is 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 the 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 paragraph 11 of IAS 23 – 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 when allocated to the CGU, intangible assets (operating licence) and any operating properties measured at fair value if the Group is the owner (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 paragraph 31 of IAS 16 (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 between 6 and 12 months past due:	50%
receivables more than 12 months past due:	100%
- Residents receiving social security support:	
receivables more than 24 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 of 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 assets, liabilities, accruals and prepayments

Current assets and current liabilities mainly comprise development-related assets and liabilities, property disposals and 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 French 2010 Finance Act published on 30 December 2009 abolished the *Taxe Professionnelle* (business tax) and replaced it with a new levy called the *Contribution Economique Territoriale* (Local Economic Contribution, CET) made up of two different components:

- The *Cotisation Foncière des Entreprises* (CFE) is based on the rental values of assets liable to property tax. This component is very similar to *Taxe Professionnelle* and is accordingly recognised as a recurring operating expense
- The *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE) is based on the added value generated by French companies. This component is analysed as a levy due on taxable profits and has accordingly been recognised as an income tax in accordance with IAS 12 since 2010.

Consequently, deferred tax expense has been recognised in profit or loss with effect from the year ended 31 December 2009 in accordance with IAS 12. The base used to calculate the tax liability mainly comprises the carrying amounts of property, plant and equipment and intangible assets with a finite useful life.
Goodwill, operating licences with an indefinite useful life and land are not included in the base in the light of the provisions of SIC 21.

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.

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 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 on the basis of actuarial estimates and using the projected unit credit method. 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 costs.

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. The ORNANE bonds issued in 2013 are the sole remaining borrowing of this type outstanding at the reporting date.

This bond has been broken down into:

- (i) an embedded derivative comprising the entitlement to the allotment of shares, with any change in fair value since launch being recognised in profit or loss under a separate heading, and
- (ii) a financial liability recognised at amortised cost using the effective interest method.

1.22 Financial instruments and derivatives

The Group uses various financial instruments to hedge its exposure to interest rate 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).

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).

2. SCOPE OF CONSOLIDATION

2016 revenue rose by 19% compared with 2015, representing an increase of €450 million.

The Group has expanded through a combination of organic growth and acquisitions.

Organic growth in revenue was 6% during 2016.

In 2016, the Group opened facilities both in and outside France after completing construction and redevelopment projects launched in previous years as follows:

- six facilities offering highly attractive accommodation in prime locations such as the Paris region (France)
- five facilities that were under construction at the time of various acquisitions by Silver Care and Residenz Gruppe Bremen (Germany)
- three facilities (Belgium)
- a facility at Wilbad (Austria)
- two facilities in Prague (Czech Republic)
- a facility in the Basel region (Switzerland)
- a facility in Nanjing (China)

ORPEA also continued to pursue its policy of acquisitions in 2016 by purchasing facilities in operation or at the proposal stage:

- a facility at Croisilles (24 beds) in France, plus the purchase of an additional 57.46% interest in the Familisanté group, lifting the Group's stake to 98.41% in the operator of 5 facilities (419 beds)
- the Vitalis Group in Germany, with its 25 facilities (2,487 beds)
- three facilities located in Malaga, Coruna and Barcelona Esplugues (462 beds) and the Sanyres group with its 18 facilities (3,300 beds) in Spain
- the Kräutergarten Group in Austria, with its 5 facilities (343 beds)
- the MEDI-System group in Poland, with its 7 facilities (704 beds)
- a facility at Lenk (31 beds) in Switzerland, plus the Spitex Ville et Campagne network of homecare services for the elderly.

Two operating subsidiaries in Belgium were also sold.

Lastly, the Group purchased, directly or via companies, specific assets necessary for its expansion, such as intangible property and operating rights.

Based on a provisional estimate of the fair value of assets acquired, the total investment at the acquisition date breaks down as follows:

	Number of facilities	Number of beds	Operating intangible assets (€ million)	Intangible concession assets (€ million)	Goodwill and other intangible assets not yet assigned (€ million)	Properties (€ million)
France	6	443	31		19	31
Outside France	59	7,327	85	44	107	119
Germany	*25*	*2,487*			*50*	
Austria	*5*	*343*	*14*			
Belgium			*1*			
Spain	*21*	*3,762*	*67*	*44*		*102*
Poland	*7*	*704*			*11*	*17*
Switzerland	*1*	*31*	*3*		*46*	
Total	65	7,770	115	44	127	150

Deferred tax liabilities recognised in respect of these acquisitions amounted to approximately €19 million.

In 2015, total investments at the date of consolidation were:

	Number of facilities	Number of beds	Operating intangible assets (€ million)	Intangible concession assets (€ million)	Goodwill and other intangible assets not yet assigned (€ million)	Properties (€ million)
France	6	342	25		18	2
Outside France	120	11,108	152	0	127	271
Germany	*53*	*5,608*			*126*	*5*
Austria & Czech Republic	*56*	*4,293*	*108*			*187*
Belgium	*9*	*957*	*36*		*0*	*52*
Spain	*1*	*150*	*4*			*12*
Italy	*1*	*100*	*4*			*15*
Switzerland						
Total	126	11,450	177	0	145	273

3. COMMENTARY ON THE FINANCIAL STATEMENTS

3.1 Goodwill

The main movements during the year were as follows:

	France	Outside France	Total
Net goodwill at beginning of period	359,334	482,199	841,532
Business combinations	19,450	107,318	126,768
Adjustments to previous goodwill and deconsolidati	1,195	12,610	13,805
Exchange differences			0
Net goodwill at end of period	**379,979**	**602,128**	**982,106**

Business combinations include the provisional allocation of the goodwill in relation to the Vitalis sub-group in Germany, the Spitex sub-group in Switzerland and the Familisanté sub-group in France.

The following groups of CGUs account for significant goodwill:

	31 Dec. 2016	31 Dec. 2015
Mediter Mieux Vivre sub-group acquired in 2010	87,652	87,652
Senevita sub-group	61,349	60,245
German operations	395,420	332,998
Other	437,684	360,637
Net goodwill at end of period	**982,106**	**841,532**

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 Dec. 2016			31 Dec. 2015		
	Gross	Amort. Impair.	Net	Gross	Amort. Impair.	Net
Operating licences	1,884,042	8,229	1,875,812	1,786,449	4,386	1,782,064
Advances and downpayments	2,278		2,278	2,235		2,235
Other intangible assets	107,606	23,130	84,476	61,761	21,452	40,309
Intangible assets held for sale	-73,391		-73,391	-73,391		-73,391
Total	1,920,535	31,359	**1,889,176**	1,777,054	25,837	**1,751,217**

At 31 December 2016, Operating licences include the intangible operating assets considered to have an indefinite useful life in France, Belgium, Italy, Spain, Switzerland and Austria.

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 Dec. 2016	31 Dec. 2015
Mediter Mieux Vivre sub-group acquired in 2010	195,850	195,840
Senevita sub-group	102,056	98,050
Senecura sub-group	123,989	109,689
Other	1,453,917	1,378,485
Net operating licences at end of period	**1,875,812**	**1,782,064**

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 2014	**1,575,127**	**6,161**	**37,837**	**(75,546)**	**1,543,579**
Increase	19,707	3,164	5,252		28,123
Decrease			(24)		(24)
Amortisation and charges to provisions	(240)		(1,737)		(1,977)
Reclassifications and other	10,168	(7,091)	(2,251)	2,155	2,981
Changes in scope	177,302		1,231		178,534
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**

Changes in the scope of consolidation derived mainly from the acquisition of the Sanyres group (€56 million), of the Familisanté group (€28 million) and of facilities in Austria (€14 million).

The reduction derived from the sale of Belgian subsidiaries for €38 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 2016, 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 2016 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 Dec. 2016			31 Dec. 2015		
	Gross	Depr. Impair.	Net	Gross	Depr. Impair.	Net
Land	1,099,600	3,021	1,096,579	953,576	2,829	950,747
Buildings	2,825,842	504,824	2,321,018	2,354,854	429,325	1,925,529
Technical installations	322,851	198,614	124,237	311,867	185,398	126,469
Properties under construction	443,894	1,251	442,643	437,552	1,251	436,301
Other property, plant and equipment	316,690	159,493	157,196	247,850	115,173	132,677
Property, plant and equipment held for sale	-66,629		-66,629	-126,609		-126,609
Total	4,942,247	867,203	**4,075,044**	4,179,090	733,976	**3,445,115**

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 2014	**796,161**	**1,394,755**	**87,105**	**584,532**	**44,428**	**(124,454)**	**2,782,528**
Acquisitions	40,583	206,630	62,008	184,596	81,726		575,543
Change in fair value	18,000						18,000
Disposals and deconsolidations	(7,555)	(29,808)	206	(89,616)	(548)		(127,321)
Depreciation and charges to provisions	(3)	(64,082)	(29,614)		(9,639)		(103,338)
Reclassifications and other	71,839	224,701	(12,472)	(290,909)	11,100	(2,155)	2,104
Changes in scope	31,723	193,333	19,236	47,698	5,609		297,599
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 deconsolidations	(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	129,044	533	1,257	1,750		152,707
At 31 December 2016	**1,096,579**	**2,321,018**	**124,237**	**442,643**	**157,196**	**(66,629)**	**4,075,044**

The main changes during 2016 were:

- the revaluation of property assets (see Note 3.4.2)
- 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 Dec. 2016	**31 Dec. 2015**
Gross revaluation reserve	519,953	459,953
Depreciation	-17,439	-17,439
Net revaluation reserve	**502,514**	**442,514**

The gross revaluation reserve for properties totalled €520 million at 31 December 2016, versus €460 million at 31 December 2015.

The net impact of the revaluation was €60 million in 2016.

The corresponding tax, calculated at the statutory tax rate, amounted to €152 million in the year ended 31 December 2016.

The average values of properties in France under the revaluation model were as follows:

Price (€) per m² in net floor area	31 Dec. 2016	31 Dec. 2015
Paris	6,383	6,105
Inner Paris suburbs	4,442	4,237
Outer Paris suburbs and other major cities	2,851	2,900
Other	1,827	1,985

3.4.3 Finance leases

Gross lease-financed property, plant and equipment breaks down as follows:

	31 Dec. 2016	31 Dec. 2015
Land	239,755	204,285
Buildings	1,000,271	822,958
Lease-financed non-current assets	**1,240,026**	**1,027,243**

Minimum payments due under finance leases are disclosed in Note 3.23.

3.4.4 Operating leases

Rental payments break down as follows:

	31 Dec. 2016	31 Dec. 2015
Rental payments	294,865	252,039
Total rental payments	**294,865**	**252,039**

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 €295 million from €252 million in 2015.

Three-quarters of this increase resulted from acquisitions in Switzerland and in Germany where almost all operating properties are rented, and to a lesser extent, from those in Austria.

At comparable structure, rental expenses edged up by around 1%.

Minimum payments due under operating leases are disclosed in Note 3.23.

3.5 Investments in associates and joint ventures

At 31 December 2016, investments in associates and joint ventures break down as follows:

Associates and joint ventures	Percentage ownership at 31 December 2016	Carrying amount of investments (€ thousand)
PCM (six care facilities)	45.0%	20,604
Cofinea (property company)	49.0%	5,011
IDS (property company)	49.9%	13,210
Other	25% to 49.9%	9,773
Total		48,598
Equity accounted profit/(loss) in previous financial years		9,820
Equity accounted profit/(loss) in current financial year		3,817
Investments in associates and joint ventures		62,235

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 2016, the main aggregates related to associates and joint ventures, presented based on the Group's percentage ownership, break down as follows:

	(€ thousand)
Non-current assets	189,036
Current assets	51,508
Equity	34,109
Non-current liabilities	113,188
Current liabilities	89,431
Revenue	46,417
Equity accounted profit/(loss)	3,817
Other comprehensive income	269
Net comprehensive income	4,086

3.6 Non-current financial assets

Non-current financial assets break down as follows:

	31 Dec. 2016 Net	31 Dec. 2015 Net
Non-consolidated investments	7,845	13,752
Loans	19,441	16,206
Security deposits and guarantees	6,962	6,976
Total	**34,248**	**36,935**

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 Dec. 2016	31 Dec. 2015
Trade receivables	148,330	127,409
Total	**148,330**	**127,409**

All trade receivables in France are payable within one month by virtue of the nature of the Group's activities.

In December 2016, the Group sold a total of €60 million in receivables. A total of €57 million was derecognised in respect of this sale, reflecting the financing received. The remaining €(3) million held as security continues to be recognised on the balance sheet.

At the end of 2015, €51 million in receivables were sold and derecognised.

3.8 *Other assets, accruals and prepayments*

	31 Dec. 2016	31 Dec. 2015
Development-related receivables	83,444	85,179
Receivables related to property disposals	23,138	25,102
VAT receivables	35,039	31,203
Advances and downpayments made	4,705	6,742
Shareholder advances (associates and related pai	176,913	121,021
Other receivables	50,648	46,374
Receivables from suppliers	7,846	12,202
Prepaid operating expenses	25,956	19,720
Total	**407,689**	**347,542**

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.

3.9 *Assets held for sale*

Assets held for sale comprise €67 million in operating properties that the Group has decided to sell in a block or in lots to third-party investors plus €73 million in associated operating licences.

3.10 *Equity*

3.10.1 Share capital

	31 Dec. 2016	31 Dec. 2015
Total number of shares	60,273,691	60,273,691
Number of shares in issue	60,273,691	60,273,691
Nominal value of the share (€)	1.25	1.25
Share capital (€)	75,342,114	75,342,114
Treasury shares	56,819	11,442

Since 31 December 2014, capital increases and the exercise of stock options have had the following impact on share capital and share premiums:

(€ thousand)	Total number of shares	Share capital	Share premiums
Share capital at 31 Dec. 2014	**55,567,893**	**69,460**	**476,121**
Appropriation of net profit			(35,000)
Exercise of BSAAR share warrants	169,210	212	5,828
Exercise of OCEANE convertibles	4,536,588	5,671	173,226
Capital increase			
Share capital at 31 Dec. 2015	**60,273,691**	**75,342**	**620,175**
Appropriation of net profit			(40,069)
Capital increase			
Share capital at 31 Dec. 2016	**60,273,691**	**75,342**	**580,106**

3.10.2 Earnings per share

Weighted average number of shares in issue:

	2016		2015	
	Basic	Diluted	Basic	Diluted
Ordinary shares	60,273,691	60,239,561	55,567,893	59,759,947
Treasury shares	(34,130)		(15,471)	
BSAAR share warrants			93,523	31,310
OCEANE convertibles			4,114,002	422,586
Weighted average number of shares	**60,239,561**	**60,239,561**	**59,759,947**	**60,213,843**

Earnings per share:

(€)	2016		2015	
	Basic	Diluted	Basic	Diluted
Net profit/(loss) attributable owners of the pare	**4.26**	**4.26**	**2.12**	**2.12**

3.10.3 ORNANE bonds

During the second half of 2013, ORPEA issued 4,260,631 bonds with a cash redemption option and/or convertible into new or existing shares (ORNANE).

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.

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 2016, the Group held 56,819 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 performance conditions linked to EBITDA and revenue.

The bonus share allotment to Category A grantees became definitive on 10 April 2017. For Category B grantees, it will become definitive on 10 April 2018, 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.

The fair value of the benefits provided to the grantees under IFRS 2 was measured by an actuary. 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 plan (excluding social security contributions) under IFRS 2 was estimated at €8.4 million. The amount expensed in 2016 was €3.8 million (excluding social security contributions).

3.10.5 Dividends

The General Meeting of the Shareholders on 23 June 2016 approved payment of a dividend in respect of the 2015 financial year of €0.90 per share, representing a total payout of €54,246,322 in July 2016.

3.11 Provisions

Provisions break down as follows:

(€ thousand)	31 Dec. 2015	Changes in scope and other	Actuarial gains or losses	Reclassification	Charges in the period	Reversals in the period: Provisions used	Reversals in the period: Provisions not used	31 Dec. 2016
Prov. for liabilities and charges	63,724	342		(3,370)	20,772	(4,084)	(4,476)	72,906
Prov. for restructuring	45,760	60,994			165	(11,414)		95,506
Total	**109,484**	**61,336**		**(3,370)**	**20,938**	**(15,498)**	**(4,476)**	**168,412**
Post-employment ben. ob.	51,215	4,047	2,704	3,370	3,229	(490)	(157)	63,919

The movements in provisions are mainly due to the changes in scope and in particular acquisitions by the German, Spanish and Swiss businesses. They also reflect the risk that ORPEA and the tax authorities may apply the rules on the calculation of pro rata VAT differently. This risk is estimated at €5.6 million at 31 December 2016, with the corresponding provision amounting to €33 million.

In October 2016, the Conseil d'Etat issued a ruling confirming the Group's calculation method. Even so, in agreement with its advisors, the Group has decided to maintain the provisions it has already set aside pending a definitive ruling by the tax authorities in the review of its dispute.

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 2016 totalled €25 million, breaking down into €18 million for employment disputes and €7 million for restructuring.

The provision for post-employment benefit obligations breaks down as follows:

(€ thousand)	**31 Dec. 2016**	**31 Dec. 2015**
France	27,275	23,480
Outside France	36,644	27,736
Total	**63,919**	**51,215**

Movements in post-employment benefit obligations in France break down as follows:

(€ thousand)	2016 Present value of obligation	2016 Provision set aside	2016 Profit or loss	2016 Equity	2015 Present value of obligation	2015 Provision set aside	2015 Profit or loss	2015 Equity
Beginning of period	**23,480**	**(23,480)**			**31,286**	**(31,286)**		
Current service cost	2,403	(2,403)	(2,403)		2,547	(2,547)	(2,547)	
Interest cost	265	(265)	(265)		613	(613)	(613)	
Expected return on plan assets								
Employer contributions								
Actuarial gains and losses	3,234	(3,234)		(3,234)	(9,606)	9,606		9,606
Benefits paid	(2,106)	2,106			(1,948)	1,948		
Changes in scope					589	(589)		
End of period	**27,275**	**(27,275)**	**(2,668)**	**(3,234)**	**23,480**	**(23,480)**	**(3,160)**	**9,606**

Movements in post-employment benefit obligations outside France break down as follows:

(€ thousand)	2016 Present value of obligation (*)	2016 Provision set aside	2016 Profit or loss	2016 Equity	2015 Present value of obligation (*)	2015 Provision set aside	2015 Profit or loss	2015 Equity
Beginning of period	**27,736**	**(27,736)**			**14,851**	**(14,851)**		
Current service cost	2,454	(2,454)	(2,454)		1,287	(1,287)	(1,287)	
Interest cost	111	(111)	(111)		261	(261)	(261)	
Expected return on plan assets					(137)	137	137	
Employer contributions	(381)	381	381		(629)	629	629	
Actuarial gains and losses	(530)	530		530	5,579	(5,579)		(5,579)
Past service cost					(189)	189	189	
Changes in scope	4,047	(4,047)			5,206	(5,206)		
Curtailments								
Other (exchange differences)					1,507	(1,507)		
Reclassification	3,206	(3,206)						
End of period	**36,644**	**(36,644)**	**(2,184)**	**530**	**27,736**	**(27,736)**	**(593)**	**(5,579)**

(*) net of plan assets

The main actuarial assumptions adopted at 31 December 2016 are as follows:

	31 Dec. 2016		31 Dec. 2015	
	France	Outside France	France	Outside France
Discount rate	1.50%	between 0.85% and 1.20%	1.96%	between 0.85% and 1.20%
Annual rate of salary increase taking account of inflation	1.50%	between 1.25% and 1.75%	2.50%	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).

At 31 December 2016, the sensitivity of the post-employment benefit obligations in France to a 0.5% increase in the discount rate was €2,081 thousand.

3.12 Financial liabilities and cash

ORPEA's net debt breaks down as follows:

(€ thousand)	**Net at 31 December 2016**	**Net at 31 December 2015**
Bonds	723,842	704,089
Finance lease obligations	885,518	789,162
Bridging loans	462,024	557,978
Other borrowings and financial liabilities	2,288,421	1,681,978
Total gross debt (*)	**4,359,805**	**3,733,207**
Cash	(504,108)	(491,824)
Cash equivalents	(35,816)	(27,101)
Total net debt (*)	**3,819,881**	**3,214,282**

(*) Including debt associated with assets held for sale

Movements in financial liabilities in 2016 were as follows:

(€ thousand)	31 Dec. 2015	Increase	Decrease	Changes in scope	**31 Dec. 2016**
Bonds	704,089	19,753			**723,842**
Finance lease obligations	789,162	148,784	(131,848)	79,420	**885,518**
Bridging loans	557,978	258,132	(354,088)		**462,024**
Other borrowings and financial liabilities	1,681,978	913,310	(340,447)	33,579	**2,288,421**
Total gross debt (*)	3,733,207	1,339,979	(826,383)	112,999	**4,359,805**
Cash and cash equivalents	(518,925)	(20,999)			**(539,924)**
Total net debt (*)	3,214,282	1,318,980	(826,383)	112,999	**3,819,881**
Debt associated with assets held for sale	(200,000)		59,980		**(140,020)**
Net debt associated with assets held for sale	3,014,282	1,318,980	(766,403)	112,999	**3,679,861**

(*) Including debt associated with assets held for sale

Net debt breaks down by maturity as follows:

	31 Dec. 2016	Less than 1 year (*)	1 to 5 years	5 years or more
Bonds	723,842	(51)	554,127	169,766
Finance lease obligations	885,518	145,700	384,360	355,458
Bridging loans	462,024	89,053	372,971	0
Other borrowings and financial liabilities	2,288,421	323,849	1,453,869	510,703
Total gross debt (*)	**4,359,805**	558,551	2,765,327	1,035,927
Cash and cash equivalents	(539,924)	(539,924)		
Total net debt (*)	**3,819,881**	18,627	2,765,327	1,035,927

(*) Including debt associated with assets held for sale

Debt maturing in more than one year and less than five years breaks down as follows:

	1 to 5 years	2018	2019	2020	2021
Bonds	554,127	138,876	180,447	234,896	(92)
Finance lease obligations	384,360	118,926	102,585	79,717	83,132
Bridging loans	372,971	225,681	75,760	69,607	1,923
Other borrowings and financial liabilities	1,453,869	296,926	340,448	387,592	428,903
Total gross debt	**2,765,327**	780,409	699,240	771,812	513,866

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. These properties are intended either to be sold to third parties or to be kept by the Group, 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:

$$R1 = \frac{\text{Consolidated net debt (excluding property debt)}}{\text{Consolidated EBITDA - 6\% of property debt}}$$

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 2016, these ratios were at 2.3x and 1.5x respectively, within the required limits of mainly 5.5x for R1 and 2.0x for R2 at 31 December 2016.

Bond issues

ORNANE: On 9 July 2013, ORPEA issued bonds with an option for redemption in cash and/or in new or existing shares (ORNANE) 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.

The 4,260,631 bonds have a nominal value of €46.56 each, putting their total nominal value at €198 million.

A fixed coupon rate of 1.75% p.a. is payable semi-annually in arrears during the life of the bonds.

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 nominal value of the bond, but solely on or after 1 February 2017.

The entitlement to the allotment of shares constitutes a derivative for the purposes of IAS 39, with any change in fair value being recognised in profit or loss.

ORPEA holds a call option on its ORNANE that is activated if the share price moves above 130% of the reference price, but the exercise period is shorter. In the event of their bonds being called by ORPEA, bondholders hold a cross call option enabling them to lock in their gains.

The agreement also contains the standard anti-dilution provisions in the event of capital increases, the distribution of reserves (including earnings for the 2012-2018 period), etc.

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 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).

Cash

At 31 December 2016, ORPEA's cash and cash equivalents consisted of €35,816 thousand in short-term investments in non-speculative short-term accounts with prime financial institutions and €504,108 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 entitlement to the allotment of shares embedded in the ORNANE bonds in recent years have been as follows:

	(€ thousand)
Change in 2013	4,893
Change in 2014	25,100
Change in 2015	43,000
Change in 2016	1,800
Total change since inception	**74,793**

At 31 December 2016, the change in fair value recognised in net finance cost came to €1.8 million. On the basis of data at 31 December 2016, a +/- 10% change in ORPEA's share price would give rise to a +/- €7 million change in the value of the option recognised in profit or loss.

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 three quarters 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 2016, as at 31 December 2015, 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 2016, the maturity profile of the interest rate derivatives was as follows:

	Maturity profile				
	2017	2018	2019	2020	2021
Average notional amount (€ million)	2,230	2,212	2,201	2,194	2,197
Interest rate	1.2%	1.2%	0.8%	0.8%	0.6%

At the end of 2015, the maturity profile of the interest rate derivatives was as follows:

	Maturity profile				
	2016	2017	2018	2019	2020
Average notional amount (€ million)	1,403	1,396	1,348	1,285	1,211
Interest rate	1.8%	1.7%	1.6%	1.1%	1.0%

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.

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 €(1.3) million.

Accumulated changes in the fair value of these hedging derivatives, which came to €(82.5) million at 31 December 2015, 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 2016, net debt amounted to €3,820 million, with approximately 35% 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 €2.1 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

(€ thousand)	2016	2015
Revaluation reserve at beginning of period	(82,498)	(102,490)
Change in fair value during the period recognised in equity	27,426	51,267
Change in fair value over the period recognised in profit or loss	(28,047)	(31,275)
Impact on comprehensive income for the period	(621)	19,992
Revaluation reserve at end of period	**(83,119)**	**(82,498)**

3.14.2 Value of non-derivative financial assets

(€ thousand)	31 Dec. 2016	31 Dec. 2015
Participating interests	7,845	13,752
Other non-current financial assets	19,441	16,206
Short-term investments	35,816	27,101
Non-derivative financial instruments	**63,102**	**57,059**

3.15 Trade payables

	31 Dec. 2016	31 Dec. 2015
Trade payables	232,019	254,137
Total	**232,019**	**254,137**

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 liabilities, accruals and prepayments*

	31 Dec. 2016	31 Dec. 2015
Development-related liabilities	96,379	50,992
Security deposits	55,075	49,217
Commitments to carry out work on buildings sold	1,093	1,323
Client accounts in credit	1,205	1,133
Other prepaid income	20,104	19,689
Interest rate derivatives	84,393	87,188
Advances and downpayments received on orders in progress	19,783	17,749
Shareholder advances (associates and related parties)	12,420	10,754
Miscellaneous liabilities	33,808	35,680
Total	**324,259**	**273,724**

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*

	2016	2015
Revenue		
France	1,695,405	1,596,616
Belgium	162,133	157,756
Spain	101,669	63,892
Italy	48,452	45,944
Switzerland	142,914	130,057
Austria	176,307	109,815
Czech Republic	1,703	
Germany	500,970	287,524
Poland	11,266	
China	405	
Total	**2,841,225**	**2,391,604**
Recurring operating profit before rents and depreciation, amortisation and charges to provisions		
France	495,564	451,203
Belgium	29,265	31,173
Spain	21,500	15,219
Italy	7,218	5,517
Switzerland	51,444	49,113
Austria	34,515	23,631
Czech Republic	(2,354)	
Germany	133,543	76,592
Poland	1,835	
China	(3,139)	
Total	**769,391**	**652,448**
Assets		
France	5,641,959	4,921,731
Outside France	2,683,605	2,449,593
Total	**8,325,564**	**7,371,324**
Liabilities excluding equity		
France	4,538,978	4,216,797
Outside France	1,710,559	1,344,817
Total	**6,249,537**	**5,561,614**

The costs of acquiring segment assets are disclosed in Note 2.

3.20 *Other non-recurring operating income and expense*

(€ thousand)	2016	2015
Proceeds from property disposals	86,373	123,632
Cost of property disposals	(68,259)	(99,690)
Reversals of provisions	6,270	6,019
Charges to provisions	(22,257)	(11,529)
Other income	75,244	47,390
Other expenses	(54,458)	(46,353)
Other non-recurring operating income and expense	**22,912**	**19,470**

Other non-recurring operating income and expense mainly comprises €18 million in net gains on disposals of property assets, €30 million in net gains and losses related to acquisitions as part of business combinations and €(28) 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:

(€ thousand)	2016	2015
Disposal price	58,270	79,544
Cost price	(42,723)	(56,651)
Profit recognised on disposals of off-plan properties	**15,547**	**22,894**

3.21 Net finance cost

(€ thousand)	2016	2015
Interest on bank debt and other financial liabilities	(83,535)	(70,298)
Interest on items held under finance leases	(13,845)	(12,327)
Net losses on interest rate derivatives	(28,047)	(29,455)
Financial expense	**(125,427)**	**(112,081)**
Capitalised financial expenses (*)	13,692	14,667
Interest income	184	597
Net gains on interest rate derivatives		
Financial income	**13,876**	**15,264**
Net interest expense	**(111,551)**	**(96,817)**

(*) calculated at an average rate of 4.15% in 2016.

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 2016.

(€ thousand)	2016	2015
Current income tax	75,018	70,434
Deferred income tax	(70,018)	(10,419)
Total	**5,000**	**60,015**

Current income tax expense for 2016 includes the CVAE value-added levy of €23,544 thousand versus €22,483 thousand in 2015.

Deferred tax expense includes a benefit of €80 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 28.92%.

In addition to this impact, the adjustment based on the same rate led to a €22 million increase in equity shown in other comprehensive income.

Deferred tax assets/(liabilities) break down by type of temporary difference as follows:

(€ thousand)	31 Dec. 2016	31 Dec. 2015
Fair value of intangible assets	(443,302)	(492,696)
Fair value of property, plant and equipment (*)	(305,337)	(338,739)
Capitalisation of finance leases	(93,605)	(91,268)
Temporary differences	(4,587)	(5,110)
Tax loss carryforwards	38,424	36,389
Deferral of capital gains on disposals	612	876
Employee benefits	10,137	10,157
CVAE deferred tax (**)	(5,477)	(6,580)
Financial instruments and other	56,857	71,646
Total	**(746,278)**	**(815,325)**

(*) o/w €152 million in deferred taxes related to the revaluation of 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 €443,302 thousand at 31 December 2016.

The deferred taxes recognised on the balance sheet break down as follows:

(€ thousand)	31 Dec. 2016	31 Dec. 2015
Assets	38,424	36,389
Liabilities	(784,703)	(851,714)
Net	**(746,278)**	(815,325)

The difference between the statutory tax rate, i.e. 34.43% in 2016, and the effective tax rate in the income statement, breaks down as follows:

(€ thousand)	2016	2015
Effective tax rate:	**1.91%**	**32.16%**
- Present value of deferred taxes calculated at the rate expected to apply	31.14%	
- Permanent differences	0.33%	2.05%
- Business combinations	4.31%	9.19%
- Impact of the reduced rate	2.31%	-0.10%
- Impact of associates	0.55%	0.79%
- Impact of foreign companies	1.23%	1.85%
- Other	-1.45%	-0.47%
- CVAE value-added levy on businesses	-5.90%	-7.47%
Statutory rate	**34.43%**	**38.00%**

3.23 Commitments and contingent liabilities

3.23.1 Off-balance sheet commitments

Risks related to debt

(€ thousand)	31 Dec. 2016	31 Dec. 2015
Contractual obligations	1,528,334	1,860,756
Total	**1,528,334**	**1,860,756**

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 2016 break down as follows:

(€ thousand)	Minimum future payments
Less than 1 year	114,371
1 to 5 years	401,639
Over 5 years	624,759
Total lease commitments	**1,140,769**

Operating lease commitments at 31 December 2016 break down as follows:

(€ thousand)	Minimum future payments
Less than 1 year	302,374
1 to 5 years	1,186,174
Over 5 years	2,973,405
Total lease commitments	**4,461,953**

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 2016, 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 been given 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

ORPEA has granted Belgian company Intorp a lease payment guarantee covering four properties leased to 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:

(€ thousand)	Classification	Level (*)	Carrying amount 31 Dec. 2016	Carrying amount 31 Dec. 2015	Fair value 31 Dec. 2016	Fair value 31 Dec. 2015
Held-to maturity investments			**0**	**0**	**0**	**0**
Bonds and negotiable debt securities	Cash and cash equivalents					
Loans and receivables			**582,422**	**498,133**	**582,422**	**498,133**
Short-term loans	Short-term loans					
Long-term loans	Non-current financial assets	2	19,441	16,206	19,441	16,206
Receivables related to asset disposals	Receivables related to asset disposals in the short term		23,138	25,102	23,138	25,102
Security deposits and guarantees	Non-current financial assets	2	6,962	6,976	6,962	6,976
Other receivables	Other receivables	2	384,551	322,440	384,551	322,440
Trade receivables	Trade receivables	2	148,330	127,409	148,330	127,409
Available-for-sale financial assets			**0**	**0**	**0**	**0**
Participating interests	Non-current financial assets					
Other						
Financial assets at fair value			**539,924**	**518,925**	**539,924**	**518,925**
Interest rate derivatives						
Currency derivatives						
Open-ended investment funds and mutual funds	Cash and cash equivalents	1	35,816	27,101	35,816	27,101
CASH	equivalents	1	504,108	491,824	504,108	491,824
Financial assets			**1,122,346**	**1,017,058**	**1,122,346**	**1,017,058**

(*) Level 1: financial assets and liabilities quoted in an active market, for which fair value is the quoted price.

(*) Level 2: financial assets and liabilities not quoted in 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.

(€ thousand)	Classification	Level (*)	Carrying amount 31 Dec. 2016	Carrying amount 31 Dec. 2015	Fair value 31 Dec. 2016	Fair value 31 Dec. 2015
Financial liabilities at fair value			**159,186**	**160,181**	**159,186**	**160,181**
Currency derivatives	Other liabilities					
Interest rate derivatives	Other liabilities	2	84,393	87,188	84,393	87,188
Change in the fair value of the entitlement to the allotm		2	74,793	72,993	74,793	72,993
Other bonds	Other liabilities					
Financial liabilities at amortised cost			**4,831,690**	**4,173,880**	**4,943,358**	**4,225,340**
Bonds convertible into, exchangeable for or redeemable in shares	Non-current and current financial liabilities	1	723,842	704,089	835,510	755,549
Bank borrowings	Non-current and current financial liabilities	2	2,750,445	2,239,956	2,750,445	2,239,956
Finance lease obligations	Non-current and current financial liabilities	2	885,518	789,162	885,518	789,162
Other liabilities	Current liabilities	2	239,866	186,536	239,866	186,536
Trade payables	Trade payables	2	232,019	254,137	232,019	254,137
Financial liabilities			**4,990,876**	**4,334,061**	**5,102,544**	**4,385,521**

(*) Level 1: financial assets and liabilities quoted in an active market, for which fair value is the quoted price.

(*) Level 2: financial assets and liabilities not quoted in 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 2016, the main impacts were as follows:

- Advances granted by ORPEA to its associates and joint ventures and to related parties amounted to €177 million at 31 December 2016
- Advances granted to ORPEA by its associates and joint ventures and by related parties amounted to €12 million at 31 December 2016.
- ORPEA leases certain operating properties from related parties within the meaning of IAS 24 - Related Party Disclosures. These lease payments amounted to €15 million in 2016.

Benefits granted to corporate officers

The total amount of gross remuneration, fees (excluding all taxes) and benefits paid during the 2016 financial year to ORPEA's corporate officers was €3,867 thousand.

Attendance fees for members of the Board of Directors for the 2016 financial year, paid in 2017, amounted to €381 thousand.

3.26 *Headcount*

ORPEA had 49,185 employees at 31 December 2016, with 8,472 new employees hired during the year.

3.27 *Statutory Auditors' fees*

Fees paid to the Statutory Auditors and their network for the services they provided to ORPEA SA amounted to €2,697 thousand in 2016 (€2,667 thousand for the audit and review of the financial statements and €30 thousand for non-audit services) compared with €2,645 thousand in 2015 (€2,615 thousand for the audit and review of the financial statements and €30 thousand for non-audit services).

3.28 *Subsequent events*

ORPEA continued its international expansion with the acquisition of the Anavita Group with its 6 facilities in the Czech Republic (932 beds) and the DR DR Wagner Group with its 18 facilities in Austria (1,812 beds).

3.29 *Scope of consolidation at 31 December 2016*

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
Silvercare Group	100%	100%	Full
Celenus	100%	100%	Full
Senecura	100%	100%	Full
MEDI-System	100%	100%	Full
CEESCH	100%	100%	Full
GCSE	100%	100%	Full