ANNUAL FINANCIAL REPORT 2010

MEDICA

Société anonyme with share capital of €18,653,466.50

Registered office: 39 rue du Gouverneur Général Félix Eboué 92130 Issy-les-Moulineaux
421 896 408 RCS Nanterre

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Statement by the person responsible for the annual financial report

1. STATEMENT BY THE PERSON RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT

I certify that, to the best of my knowledge, the financial statements have been prepared in accordance with the relevant accounting standards and give a fair presentation of the net worth, financial position and results of the Medica Group and of all the companies consolidated by it as at 31 December 2010, and that the management report appended to the financial statements gives a fair picture of the trends in the businesses, results and financial positions of the Company and all companies consolidated by it, together with a description of the main risks and uncertainties that it faces.

Jacques Bailet, Chairman and Chief Executive Officer of Medica

Management's discussion and analysis

Société anonyme with share capital of €18,653,466.50

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Dear Shareholders,

In accordance with the law and the Company's Articles of Association, we have called this Ordinary Annual General Meeting in order to provide discussion and analysis of the operations of Medica S.A. (the “Company”) and its group (the “Medica Group”) during the year ended 31 December 2010 and to submit the financial statements for the year for your approval.

We shall provide any details or additional information concerning the items and documents required by applicable regulations and which have been made available to you within the legally required time frame.

You can then avail yourselves of the Statutory Auditors' reports.

1. PRESENTATION OF THE MEDICA GROUP

1.1. OVERVIEW OF THE BUSINESS

1.1.1 Care facilities of Medica Group

The Medica Group, a leading player in the French long-term and short-term dependency care market, operates primarily in two business segments:

- **long-term care**[1] , comprising care homes for the dependent elderly (137 facilities with 10,868 beds at 31 December 2010); and
- **post-acute and psychiatric short-term care**, which includes post-operative care and rehabilitation services as well as psychiatric services (36 facilities[2] with 2,317 beds at 31 December 2010).

1.1.2 Substantial geographic coverage in the densely populated areas of France and Italy

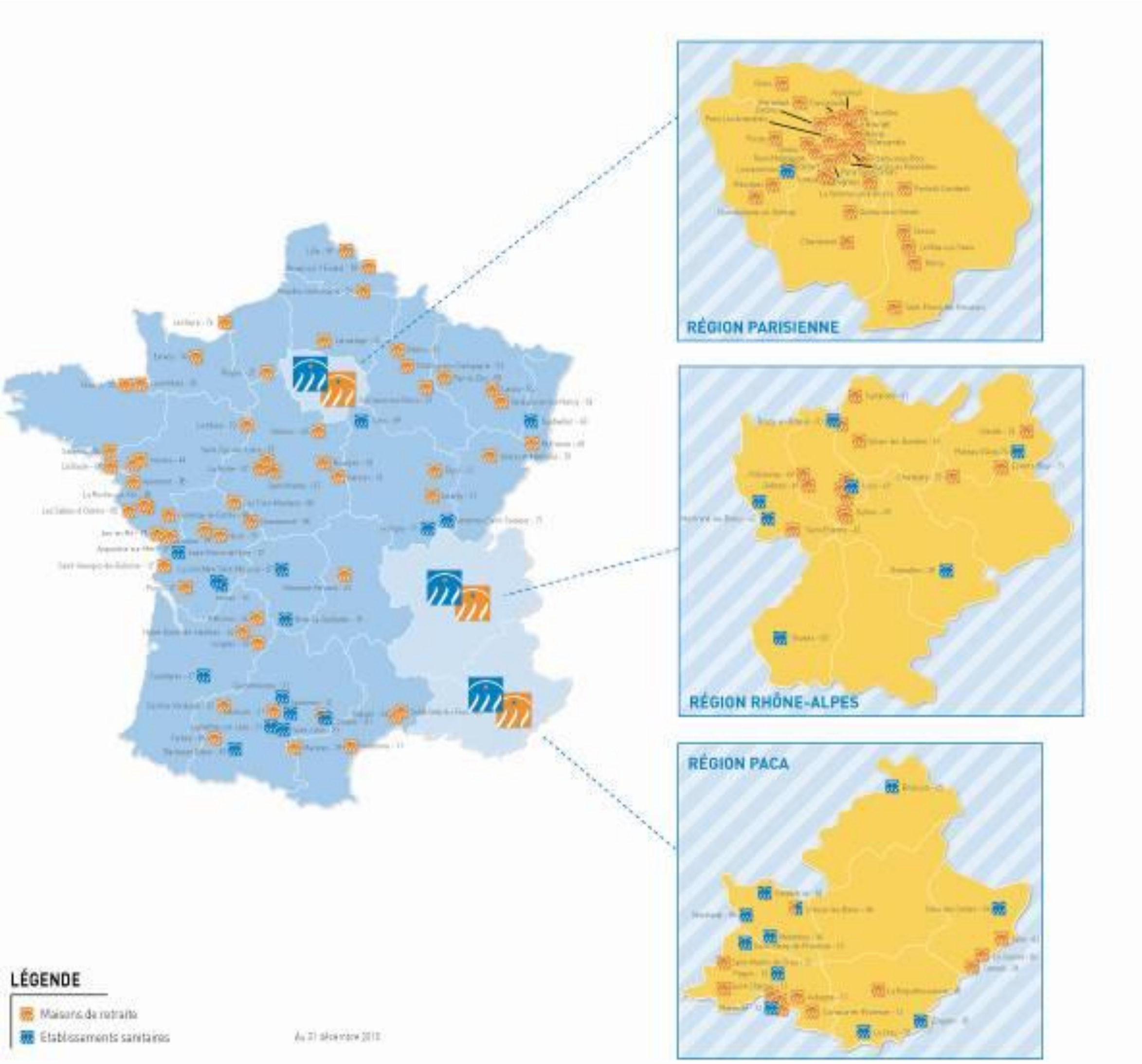
The Medica Group has a strong presence in the densely populated areas of France (mainly Ile-de-France, Rhône-Alpes and Provence-Alpes-Côte d'Azur) and Italy (Piedmont and Lombardy), where living standards are generally high and there is strong demand for care facilities.

Operating in areas with substantial growth potential and high income levels enables the Group to pursue an ambitious yield management policy. In addition, a strong regional presence helps to raise its profile and increase its credibility, particularly with regard to the new Regional Health Agencies (ARS), which will be responsible for coordinating all care facility networks throughout France.

[1] This segment comprises the Medica Group's long-term care facilities in France and Italy.

[2] Including the combining of the Neuville les Dames site at the Bourg en Bresse facility.

The following map shows a geographical breakdown of the Medica Group’s care facilities in France by type at 31 December 2010.



The Medica Group's facilities are spread across all 21 of France's administrative regions (mainland France excluding Corsica), concentrated mainly in three regions that alone account for around 46% of the country's gross domestic product (Source: EUROSTAT, 2006): Ile-de-France, Rhône-Alpes and Provence-Alpes-Côte d’Azur.

Since 2005, the Medica Group has also been present in Italy, primarily in two regions in the north of Italy - Piedmont and Lombardy - where gross domestic product per capita is among the highest in the country (Source: http://europa.eu).

1.2 Growth in business activity

In France, the Medica Group acquired 750 long-term care beds in operation, including in particular:

- a group based in Languedoc Roussillon;
- a group based in the Paris region specialising in caring for people with Alzheimer's or related conditions.

In Italy, the Medica Group acquired over 600 beds, mainly in Lombardy.

In addition, more than 400 long-term care beds were opened in France.

Lastly, around 150 redeveloped post-acute and psychiatric care beds were delivered.

At 31 December 2010, the Medica Group had therefore increased its scope by 1,804 beds in operation, bringing its total capacity to 13,185 beds.

1.3 SIGNIFICANT EVENTS OF THE YEAR

1.3.1 Listing of the Company's shares on Euronext Paris on 12 February 2010

Capital increase

In February 2010, the Medica Group carried out the year's largest initial public offering by a French company on the Paris stock market.

On 24 January 2010, using the authorisation granted at the shareholders' meeting of the same date, the Board of Directors agreed to the following proposals:

- to increase the share capital by a maximum of €6,084,219 through an open price offering ("OPO") of a maximum of 15,625,000 new shares with a par value of €0.38939, without pre-emptive rights;
- to increase the share capital by a maximum of €610,630 through a private placement restricted to Predica and independent directors of the Company — Catherine Soubie, Guy de Panafieu and Gilles Cojan;
- to increase the share capital by a maximum of €12,168 through an employee share offering to members of the Group employee savings plan.

The Board of Directors set an indicative price range of €16 per share (low) to €19.50 per share (high).

On 25 January 2010, the Autorité des Marchés Financiers (AMF) stamped the prospectus prepared by Medica for the public offering on Euronext Paris, under visa no. 10-015.

The final terms and conditions of the various offerings were set by the Board of Directors on 9 February 2010, setting the price of the shares offered under the global placement and open price offering at €13 per share.

Initial listing of the Company's shares

All the Company's shares (existing shares, new shares, shares issued on conversion of the convertible bonds, new shares reserved for employees) were admitted for trading on compartment B of Euronext Paris on 10 February2010, for settlement and delivery on 12 February 2010.

Despite the difficult market conditions, there was strong demand for Medica shares from both French and international institutional investors and the global placement was ultimately about three times oversubscribed.

Similarly, the retail offering was highly successful, attracting almost 7,500 orders.

The employee share offering was made through the Medica Group employee share ownership plan and was taken up by over 3,000 Group employees.

The total proceeds of the public offering, the placement with Predica and independent directors and the employee offering totalled about €275.5 million, intended to give the Company the means to implement its growth strategy, by paying back some of its debt and thereby helping to improve its financial flexibility.

Medica shares are now traded on Euronext under ISIN code FR00010372581 and symbol MDCA. They are eligible for deferred settlement.

Corporate governance: appointment of new directors

On 12 February 2010, Catherine Soubie, Gilles Cojan and Guy de Panafieu were appointed to the Board of Directors3 for a term of three (3) years as independent directors.

1.3.2 Restructuring of the syndicated loan and new credit facility

12 February 2010: Restructuring of the syndicated loan

At the time of its initial public offering on Euronext Paris, the Medica Group repaid its mezzanine debt in full and part of tranche C.

In addition, a new €80 million acquisition credit facility agreed on 9 November 2009 came into effect.

16 June 2010: New credit facility

In April 2010, to accompany its strategy of controlled growth in terms of both organic growth and acquisitions, Medica negotiated a new credit facility with a limited number of banks in order to reduce its borrowing costs and increase its financial flexibility.

On 16 June 2010, the Company signed a club deal[4] with a syndicate of leading banks with the customary guarantees, including a €350 million term loan facility and a €100 million revolving loan facility for a term of five years.

The new credit facilities will enable Medica to significantly reduce its borrowing costs, while providing financing capacity aligned with the Group's growth strategy.

The €350 million term loan facility will be used to refinance existing syndicated loans.

The €100 million revolving loan facility will provide Medica with additional financing resources for its controlled growth strategy, particularly for acquisitions, at a spread of 170 bps versus 350 bps previously

Lastly, the banking documentation provides for an additional €150 million basket of bank facilities that includes a lease financing option for real estate purchases.

In addition to obtaining these new credit facilities, the Group adjusted its interest rate hedging policy in July 2010 in order to optimise its borrowing costs.

The Group entered into a fixed-rate swap agreement with effect from January 2011 and based on an amount of €350 million, of which €100 million expires on 31 December 2013 and €250 million on 30 June 2014.

As of January 2011, the average interest rate for these new hedges will come to around 1.7%, down 200 basis points compared with current fixed-rate swaps.

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[3] For information on Board members, see the section on corporate governance rules

[4] Syndicate of six mandated lead arrangers: Caisse Régionale de Crédit Agricole Mutuel de Paris et d'Ile de France, Crédit Lyonnais, Mediobanca, Natixis (Documentation Agent), Société Générale and Royal Bank of Scotland (Loan Agent), and two lead arrangers: BNP Paribas and BCME (Banque Commerciale pour le Marché de l'Entreprise), and HSBC as "Lender".

1.3.3 Sale and leaseback agreement

On 17 December 2010, the Company signed a sale and leaseback agreement concerning some of its property assets under a club deal with Natixis Bail, a subsidiary of Natixis, and Finamur, a subsidiary of Credit Agricole Leasing as co-lead managers, and Oseo Financement as a member of the club deal. The main terms of the new lease are as follows:

- Amount: €130 million
- Term: 12 years

The lease will enable Medica to diversify and optimise the terms of its financing by setting up a long-term property loan. The transaction, which was made possible by the quality of the underlying properties, also allows Medica to maintain control over its assets due to the purchase option exercisable at a future date.

The transaction covers 19 facilities with a total of some 1,400 beds.

2. CONSOLIDATED FINANCIAL INFORMATION AND CONSOLIDATED RESULTS

Key financial indicators in 2009 and 2010

	2010	2009
Number of facilities	**173**	**148**
Number of beds		
Long-term care	8,810	7,636
Post-acute and psychiatric care	2,317	2,317
Italy	2,058	1,428
TOTAL	**13,185**	**11,381**
Occupancy rate[5]	**97.0%**	**96.7%**

2.1 CONSOLIDATED INCOME STATEMENT

2.1.1 Condensed income statement

The following tables present the Medica Group's key income statement figures for 2009 and 2010.

	2010	2009
Revenue		
Total (millions of euros)	538.9	480.7
France (millions of euros)	478.8	431.0
France (%)	88.9%	89.7%
O/w long-term care (millions of euros)	334.6	289.6
O/w long-term care (%)	62.1%	60.2%
O/w post-acute and psychiatric care (millions of euros)	144.2	141.4
O/w post-acute and psychiatric care (%)	26.8%	29.4%
Italy (millions of euros)	60.1	49.7
Italy %	11.1%	10.3%

EBITDAR (EBITDA before rental expense)		
Total (millions of euros)	143.3	127.3
Total (% of revenue)	26.6%	26.5%
France (millions of euros)	128.5	115.6
France (% of revenue)	26.8%	26.8%
O/w long-term care (millions of euros)	90.6	79.3
O/w long-term care (% of revenue)	27.1%	27.4%

5 Occupancy rate: number of days billed divided by the number of billable days for facilities that have been open for more than 12 months.

	2010	2009
O/w post-acute and psychiatric care (millions of euros)	37.9	36.3
O/w post-acute and psychiatric care (% of revenue)	26.3%	25.7%
Italy (millions of euros)	14.8	11.7
Italy (% of revenue)	24.6%	23.6%
EBITDA		
Total (millions of euros)	95.0	84.6
Total (% of revenue)	17.6%	17.6%
EBIT		
Total (millions of euros)	71.2	64.1
Total (% of revenue)	13.2%	13.3%
Net finance costs		
Total (millions of euros)	-33.2	-80.7
Net profit attributable to equity holders of the parent		
Total (millions of euros)	23.2	-13.4
Total (% of revenue)	4.3%	-2.8 %
Basic profit / (loss) per share		
in euros	0.54	-1.83

2.1.2 Main definitions

Revenue mainly includes services and care provided.

EBITDA is defined as recurring operating profit (or **EBIT**) before depreciation, amortisation and provisions.

EBITDA and EBIT are intermediate aggregates calculated and presented in the Medica Group's consolidated full-year financial statements.

The Medica Group also monitors an internal indicator called **EBITDAR**, which is defined as EBITDA before the impact of property costs (i.e. before property rental expense).

Occupancy rate is defined as the ratio of the number of days billed to the number of billable days for facilities open for more than 12 months. The number of billable days is the number of beds multiplied by the total number of days in the year or, in the case of facilities open for only part of the year, the total number of days in operation.

2.1.3 Consolidated revenue analysis

The Medica Group's consolidated revenue rose by 12.1% or €58.2 million, from €480.7 million in 2009 to €538.9 million in 2010, reflecting:

- €28.8 million in organic growth or growth of 6.0% in consolidated revenue; and
- €29.4 million due to changes in scope compared with 2009 due to acquisitions made in 2010.

The 6.0% organic growth stemmed from:

- revaluations of rates charged for the various services provided by the Medica Group (accommodation fees for the long-term care segment and related services for the post-acute and psychiatric segment);
- revaluation of care rates and dependency allowances in the long-term care segment and of day rates in the post-acute and psychiatric segment; and
- the ramp-up of facilities opened in 2010, with over 400 long-term care beds opened in France.

Revenue by segment increased in 2010 relative to 2009 as a result of acquisitions made in 2010 in the long-term care segment in France and Italy:

At 31 December	**2010**		**2009**		
	In millions of euros	**% of revenue**	**In millions of euros**	**% of revenue**	**Change 2009-2010**
Long-term care	334.6	62.1%	289.6	60.2%	+15.6%
Post-acute and psychiatric care	144.2	26.8%	141.4	29.4%	+2.0%
Italy	60.1	11.1%	49.7	10.3%	+20.8%
TOTAL	**538.9**	**100%**	**480.7**	**100%**	**+12.1%**

2.1.4 Revenue and EBITDAR by business segment

Long-term care – France

	2010	2009
Revenue		
Total (millions of euros)	334.5	289.6
EBITDAR		
Total (millions of euros)	90.6	79.3
Total (% of revenue)	27.1%	27.4%

Consolidated revenue from long-term care activities in France rose by €45.0 million to €334.6 million in 2010, compared with €289.6 million in 2009. This represents growth of 15.6% as a result of acquisitions made in 2010 and organic growth of 8.4%, driven by:

- an increase in care rates and dependency allowances following the signature of agreements to create new facilities or the renewal of tripartite agreements with local authorities and the social services department. A total of 10 agreements were renewed in 2010. Furthermore, as part of the experiment relating to spending on drugs, five of the Medica Group's long-term care facilities included drugs in their care rates in 2010, resulting in an increase in care revenues;
- growth in accommodation revenues following a revaluation of day rates charged and an increase in the Group's accommodation fees for new residents where it is free to set rates; and lastly
- the ramp-up of facilities opened in 2010.

EBITDAR rose by 14.3% to €90.6 million in 2010 compared with €79.3 million in 2009, with revenue growth of 15.6% offset by slight deterioration in EBITDAR margin to 27.1% compared with 27.4% in 2009.

Post-acute and psychiatric care – France

	2010	2009
Revenue		
Total (millions of euros)	144.2	141.4
EBITDAR		
Total (millions of euros)	37.9	36.3
Total (% of revenue)	26.3%	25.7%

Consolidated revenue from post-acute and psychiatric care activities in France rose by €2.8 million from €141.4million in 2009 to €144.2 million in 2010, equal to growth of 2.0% broken down as follows:

- an increase in the daily rates paid by the Regional Hospital Agency (ARH) under targets and resources contracts as at 28 April 2010;
- growth in additional services (such as private rooms, with consolidated revenue totalling €30.4 million in 2010 compared with €29.3 million in 2009.

EBITDAR rose by 4.3% to €37.9 million compared with €36.3 million in 2009 due to revenue growth of 2.0% combined with improvement in EBITDAR margin from 25.7% in 2009 to 26.3% in 2010.

Long-term care – Italy

	2010	**2009**
Revenue		
Total (millions of euros)	60.1	49.7
EBITDAR		
Total (millions of euros)	14.8	11.7
Total (% of revenue)	24.6%	23.6%

Consolidated revenue from long-term care activities in Italy rose by €10.3m from €49.7m in 2009 to €60.1m in 2010, equal to growth of 20.8 %. This €10.3m increase in revenue breaks down as follows:

- an increase of €1.6m relating to the Medica group's organic growth, equal to revenue growth of 3.2%; and
- €8.7 million due to changes in scope compared with 2009 following the acquisition of over 600 beds.

Despite a slight drop in the occupancy rate from 95.6% in 2009 to 95.1% in 2010, the Medica Group's Italian long-term care facilities nonetheless achieved organic growth of 3.2% in 2010 due to fee revaluations, particularly for accommodation.

EBITDAR rose by 26.0% to €14.8 million in 2010 compared with €11.7 million in 2009 as a result of improvement in EBITDAR margin to 24.6% in 2010 compared with 23.6% in 2009.

2.1.5 Analysis of main expense items

EXTERNAL CHARGES (other than rental expense)

The table below shows the development of external costs:

	2010	2009
External charges (other than rental expense)		
(€ million)	95.1	86.5
(percentage of revenue)	*17.7%*	*18.0%*
France external costs (excluding rental charges)		
(€ million)	57.7	54.0
(percentage of revenue in France)	*12.0 %*	*12.5%*

External costs (excluding rental charges) represent a significant portion of consolidated revenue. They mainly include outsourced services (catering for post-acute and psychiatric care facilities, cleaning, linen rental and maintenance, and the provision of human resources and equipment for Italian facilities).

They also include non-inventory purchases (mainly energy, water and miscellaneous supplies), fees paid to third parties, equipment rental costs and repair and maintenance costs for the Group's care homes.

In 2010, external charges (other than rental expense) represented 17.7% of the Medica Group's consolidated revenue.

RENTAL EXPENSE

Rental expense (property rent) is the third-largest cost item for the Medica Group. The table below shows rental expense in absolute terms and as a percentage of consolidated revenue in 2009 and 2010.

	2010	2009
Rental expense		
(In millions of euros)	48.3	42.7
(% of revenue)	*9.0%*	*8.9%*

Most of the Medica Group's commercial leases include a rent indexation clause. Any change in the index has an impact on rent levels. At 31 December 2010, most commercial leases in France were indexed to the French construction cost index ("CCI") or to the revaluation of accommodation fees for the long-term care segment.

On a like-for-like basis, rental expense rose by 0.6% between 2009 and 2010.

PERSONNEL EXPENSES

The Medica Group's business requires a large, highly qualified workforce. The majority of the staff working in its care homes are salaried employees of the Medica Group. Nonetheless, a small proportion of staff are employed under temporary contracts or as subcontractors (particularly catering and cleaning services, together with human resources and equipment for group facilities in Italy). Temporary contract and subcontracting costs are recorded as external costs in the income statement (see below). Personnel expenses are currently the largest single expense item.

The table below shows personnel expenses in absolute terms and as a percentage of consolidated revenue in 2009 and 2010:

At 31 December	2010		2009	
	In millions of euros	% of revenue	In millions of euros	% of revenue
Medica Group				
Personnel expenses	246.8	45.8%	214.0	44.5%
Medica Group in France				
Personnel expenses	242.4	50.6%	211.3	49.0%

On a like-for-like basis, the increase in personnel expenses was due to three main factors:

- In the long-term care segment, growing medicalisation of care homes following the signature of tripartite agreements requires the recruitment of qualified care staff (mainly nurses and care assistants) who broadly command higher salaries. All of the Medica Group's long-term care homes had signed a tripartite agreement at 31 December 2010 and 45% of homes that have already signed agreements have renewed them;
- The increase in personnel expenses was also due to a revaluation of the contractual gross monthly salary following a 0.7% rise in the reference base for the long-term care segment as of 1 April 2010. There was no revaluation in the post-acute and psychiatric care segment during 2010;
- The contractual gross monthly salary increases by 1% per year of service under the terms of the long-term care annex to the single bargaining agreement for the private for-profit hospital sector.

In Italy, nearly all the Group's human resources and equipment are provided by a social cooperative and personnel expenses therefore represent only a very small proportion of revenue in Italy.

2.1.6 EBITDAR (EBITDA before rental expense)

EBITDAR rose by 12.6% to €143.3 million in 2010 compared with €127.3 million in 2009.

EBITDAR remained stable as a percentage of revenue at 26.6% compared with 26.5% in 2009.

2.1.7 EBITDA and EBIT

EBITDA rose by 12.2% in 2010 to €95.0 million from €84.6 million in 2009, giving a margin of 17.6%.

EBIT or recurring operating profit rose by 11.1% to €71.2 million from €64.1 million in 2009. EBIT margin was therefore 13.2% compared with 13.3% the previous year.

2.1.8 Other non-recurring operating income and expense

Other non-recurring operating income and expense represented a net expense of €2.4 million in 2010 versus a net expense of €6.3 million in 2009. This item breaks down as follows:

- **Expense of €32.6 million**: carrying amounts of assets sold (€23.0 million), restructuring costs related to temporary or permanent closure of care homes (€4.8 million), expenses incurred in 2010 in relation to the initial public offering (€3.0 million, including €0.9 million corresponding to the Medica France Group employee share ownership plan);
- **Income of €30.2 million**, mainly comprising the proceeds from asset disposals (€22.7 million) and proceeds from business combinations (€7.2 million).

2.1.9 Net finance costs

Net finance costs amounted to €33.2 million compared with €80.7 million in 2009.

In millions of euros	**2010**	**2009**
Interest on borrowings and finance leases	(16.2)	(51.2)
Income and expense relating to interest-rate hedges	(9.4)	(13.6)
Cost of debt after hedging	**(25.5)**	**(64.8)**
Impact of amortised cost	(5.7)	(15.7)
Cost of net debt	(31.2)	(80.5)
Other financial income and expense	(1.9)	(0.7)
Change in fair value of derivative instruments	(0.1)	0.5
Net finance costs	**(33.2)**	**(80.7)**

The Company's initial public offering on Euronext Paris resulted in a change in its debt structure, which significantly reduced its financial expenses mainly as a result of the €275 million capital increase, the conversion of bonds into shares and the taking out of new debt as part of a club deal. This reduction in debt was also accompanied by a fall in 3-month Euribor rates between 2009 and 2010, with nearly all of Medica's debt comprising variable-rate loans.

This inevitably resulted in a fall in interest expense on borrowings and finance leases from €51.2 million in 2009 to €16.2 million in 2010.

In 2006, the Medica Group adopted a hedging policy to protect against fluctuations in interest rates, taking out interest-rate swaps allowing it to swap Euribor for a fixed interest rate of around 3.7%. These hedges were restructured in June 2010 following the adoption of the club deal in order to reduce the nominal amount of hedging. The Medica Group paid €13.6 million under these hedges in 2009 compared with €9.4 million in 2010.

The impact of amortised cost was an expense of €15.7 million in 2009. This accelerated depreciation was due to the initial public offering. As the IPO process had already been initiated at 31 December 2009 and its completion would simply confirm conditions that existed at the balance sheet date, it was treated as an adjusting event in accordance with IAS 10 "Events after the Balance Sheet Date". Accordingly, the impacts of the bond conversion and loan repayments that would have taken place on 12 February 2010 were accounted for in the 2009 financial statements. Consequently, the impact of amortised cost on prepaid borrowings and the bonds converted in February 2010 was recognised as a financial expense at 31 December 2009. In 2010, the remaining amortised cost of the syndicated loan was amortised. The syndicated loan was repaid in June 2010. The impact of amortised cost was an expense of €5.7 million in 2010.

Since 1 January 2009, derivative instruments have been accounted for as cash flow hedges and the change in fair value of the effective portion is now recognised directly in equity. The change in fair value of derivative instruments through profit or loss therefore amounted to only €0.5 million in 2009 and -€0.1 million in 2010.

2.2 CONSOLIDATED BALANCE SHEET

2.2.1 Selected balance sheet information

In millions of euros	2010	2009
ASSETS		
Goodwill	367.4	353.1
Intangible assets	557.7	483.1
Property, plant and equipment	334.3	294.3
Shares in associates	2.1	-
Other financial assets	19.3	17.4
Available-for-sale financial assets	1.3	1.7
Deferred tax assets	0.4	1.1
Derivative financial instruments	1.8	1.1
Total non-current assets	**1,284.3**	**1,151.8**
Inventories and work-in-progress	2.1	1.9
Trade receivables	35.3	29.9
Tax assets	1.7	1.6
Other receivables	16.8	12.7
Other current assets	4.5	6.7
Cash and cash equivalents	142.3	38.5
Total current assets	**202.7**	**91.5**
Total non-current assets and disposal groups held-for-sale		11.2
Total assets	**1,487.0**	**1,254.5**

In millions of euros	2010	2009
LIABILITIES AND EQUITY		
Share capital	18.7	11.3
Additional paid-in capital	500.7	0.0
Treasury shares	(1.5)	0.0
Other reserves	0.0	0.0
Net profit/(loss) attributable to equity holders of the parent	23.2	(13.4)
Retained earnings	63.8	124.3
Total equity attributable to equity holders of the parent	**604.9**	**122.3**
Profit attributable to minority interests	0.3	0.4
Retained earnings attributable to minority interests	4.7	2.9

In millions of euros	2010	2009
Total equity	**609.9**	**125.6**
Long-term debt	480.0	393.6
Employee benefit obligations	5.5	4.7
Liabilities related to associates with negative net worth	1.0	0.3
Other provisions	7.2	8.5
Deferred tax liabilities	189.8	191.5
Derivative financial instruments	0.0	18.9
Other non-current liabilities	23.6	23.1
Total non-current liabilities	**707.1**	**640.6**
Short-term debt	27.4	393.5
Employee benefit obligations	1.2	1.0
Trade payables	42.8	36.6
Other payables	91.4	56.1
Derivative financial instruments	4.7	0.0
Current taxes	2.6	1.1
Total current liabilities	**170.0**	**488.3**
Total liabilities on non-current assets and disposal groups held-for-sale		
Total equity and liabilities	**1,487.0**	**1,254.5**

2.2.2 Intangible assets and property, plant & equipment

Intangible assets mainly comprise operating licences and goodwill. At 31 December 2010, operating licences amounted to €553.9 million and goodwill to €367.4 million.

Property, plant and equipment mainly comprise land and buildings, principally long-term care facilities and post-acute and psychiatric care facilities operated by the Group. Property, plant and equipment totalled €334.3 million at end-2010 including €272.7 million in land and buildings.

2.2.3 Debt

Until 12 February 2010, the Medica Group had two types of debt: a convertible bond issue made in 2006 and bank borrowings in the form of a syndicated loan and property finance leases.

The convertible bonds were converted into shares and the terms of the syndicated loan amended on 12 February 2010 at the time of the initial public offering on Euronext Paris. The syndicated loan was also partially repaid with the proceeds from the IPO.

On 16 June 2010, Medica took out a loan agreement comprising a €350 million term loan facility and a €100 million revolving loan facility for a term of five years. The term loan facility has allowed for the refinancing of the Company's remaining existing syndicated borrowings.

On 17 December 2010, the Company signed a sale and leaseback agreement concerning some of its property assets by signing a new 12-year lease agreement worth a total of €130 million.

Net debt stood at €365.0 million at end-2010 compared with €748.6 million at end-2009.

(In millions of euros)	2010	2009
Bonds	-	241.9
Syndicated bank loans	350.0	576.3
Lease finance	134.9	34.1
Other bank loans	14.4	10.1
Accrued interest on loans	0.7	0.4
Bank overdrafts	12.3	4.1
Redemption value of bank loans and financial liabilities	**512.3**	**866.9**
Convertible bonds (equity component)	-	(74.6)
Compounding effect of amortised cost	(5.0)	(5.1)
Total bank loans and financial liabilities	**507.3**	**787.2**
Cash and cash equivalents	(142.3)	(38.5)
Net debt	**365.0**	**748.6**

Analysis of the term loan facility and revolving loan facility

On 16 June 2010, Medica signed a club deal with a syndicate of leading banks covering the following loan facilities with the customary guarantees, funded on 23 June. The main terms are as follows:

Amount
Term Loan Facility: €350 million
Revolving Loan Facility: €100 million

Maturity
Term Loan Facility: 5 years - Repayable in instalments
Revolving Loan Facility: 5 years - Repayable at maturity

Initial spreads
Term Loan Facility: 165 bps
Revolving Loan Facility: 170 bps

Covenants
Net debt/EBITDA < 4.50x until 2011, declining ratio from then on

Documentation
Loan agreement based on the Loan Market Association corporate facility documentation, including a change of control clause covering a situation where a shareholder or a group of shareholders would acquire control within the meaning of article L.233-3 of the French Commercial Code.

The new credit facilities will enable the Medica Group to significantly reduce its borrowing costs, while providing financing capacity aligned with the Group's growth strategy.

- The €350 million term loan facility will be used to refinance existing syndicated loans at a reduced spread of 165 bps versus 270 bps previously;
- The €100 million revolving loan facility will provide the Medica Group with additional financing resources for its controlled growth strategy, particularly for acquisitions, at a spread of 170 bps versus 350 bps previously
- Lastly, the banking documentation provides for an additional €150 million basket of bank facilities that includes a lease financing option for real estate purchases.

2.3 CONSOLIDATED STATEMENT OF CASH FLOWS

2.3.1 Summary statement of cash flows

(In millions of euros)	2010	2009
Net cash from operating activities	99.3	89.8
Net cash from/(used in) investing activities	(81.3)	(35.2)
Net cash from/(used in) financing activities	77.7	(41.8)
Net increase (decrease) in cash and cash equivalents	95.6	12.8
Net cash and cash equivalents at beginning of year	34.4	21.6
Net cash and cash equivalents at end of year	130.0	34.4
Net increase (decrease) in cash and cash equivalents	95.6	12.8

2.3.2 Net cash from operating activities

(In millions of euros)	2010	2009
Consolidated net profit/(loss)	23.6	(13.0)
Adjustments for profit or losses from associates	0.5	0.4
Adjustments for depreciation, amortisation, impairment losses and provisions	18.2	18.5
Adjustments for fair value	(5.2)	(0.4)
Adjustments for gains or losses on disposal and dilution	(3.5)	1.1
Adjustments for dividend income	(0.0)	0.0
Cash flow after cost of net debt and tax	**33.5**	**6.6**
Adjustments for security acquisition costs	1.6	0.0
Adjustments for IPO costs	2.2	0.0
Adjustments for tax expense/(benefit)	11.6	(10.4)
Adjustments for net finance costs	36.5	80.4
Cash flow before interest and tax	**85.4**	**76.7**
Change in working capital	18.8	14.5
Income tax paid	(4.9)	(1.4)
Net cash from operating activities	**99.3**	**89.8**

Net cash from operating activities amounted to €99.3 million in 2010 compared with €89.8 million in 2009, rising in parallel with growth in EBITDA, up from €84.6 million in 2009 to €95.0 million in 2010. Net cash from operating activities breaks down into cash flow before interest and tax, change in working capital and income tax paid.

Cash flow before interest and tax came to €85.4 million compared with €76.7 million in 2009.
In 2010, working capital increased by €18.8 million compared with €14.5 million in 2009.

In 2010, the Medica Group paid €4.9 million in corporate income taxes, including €1.1 million corresponding to the payment of tax on operations in Italy which do not fall within the scope of group tax relief.

2.3.3 Net cash used in investing activities

In millions of euros	2010	2009
Impact of changes in the scope of consolidation	(59.3)	(9.5)
Increase in property, plant and equipment	(41.4)	(33.8)
Increase in intangible assets	(2.0)	(1.3)
Increase in financial assets	(0.3)	(0.0)
(Increase)/decrease in loans and advances granted	(1.0)	(3.1)
Proceeds from disposal of property, plant and equipment and intangible assets	22.7	12.4
Disposals of financial assets	0.0	0.0
Dividend income	0.0	0.0
Net cash used in investing activities	**(81.3)**	**(35.2)**

In 2010, net cash used in investing activities totalled €81.3 million compared with €35.2 million in 2009, reflecting the upturn in acquisitions; changes in the scope of consolidation generated an outflow of €59.3 million in 2010 compared with €9.5 million in 2009. The Medica Group also continued to invest in its real estate assets through maintenance expenditure of €16.4 million in 2010, compared with €13.7 million, as well as investment of €25 million in redevelopment projects and the creation of new facilities.

In 2010, the Medica Group sold a number of real estate assets for a total of €22.7 million compared with €12.4 million in 2009.

2.3.4 Net cash from financing activities

In millions of euros	2010	2009
Capital increase	255.1	0.0
Treasury shares	(1.5)	0.0
Issuance of debt	484.8	11.4
Repayment of debt	(608.0)	(15.1)
Net interest paid	(46.9)	(38.0)
Repayment of derivative financial instruments	(5.7)	0.0
Dividends paid to minority shareholders of subsidiaries	(0.1)	(0.1)
Net cash from/(used in) financing activities	**77.7**	**(41.8)**

Net cash from financing activities amounted to €77.7 million in 2010 compared with net cash used in financing activities of €41.8 million in 2009.

The key events of 2010 included:

- Capital increases carried out as part of the initial public offering in February 2010 (€255.1 million net of related expenses);
- Partial and then full repayments of the syndicated loan in February and then in June 2010;
- The signing of the new club deal in June 2010;
- The restructuring of swaps in June 2010;
- The sale and leaseback agreement signed in December 2010.

All of these factors inevitably impacted net cash from financing activities in 2010.

2.4 OFF-BALANCE SHEET COMMITMENTS

Guarantees and commitments given:

The table below summarises commitments given in 2010:

In millions of euros	2010
Project acquisition promises (subject to conditions precedent)	46.4
Total	**46.4**

Guarantees and commitments received:

The Medica group benefits from asset and liability guarantees from sellers primarily in relation to its acquisitions. These asset and liability guarantees are summarised in the table below for 2010:

In millions of euros	2010
Asset and liability guarantees received relating to purchases of securities	6.9
Total	**6.9**

Operating leases:

The Medica Group operates some of its facilities under commercial leases, which generally have terms of nine to 12 years. These contracts include indexation and renewal clauses. The table below details all the future minimum payments under non-cancellable operating lease agreements for 2010:

Commitments under operating lease agreements concerning facilities in operation (without discounting):

In millions of euros	2010
Less than 1 year	52.0
Between one and five years	183.0
More than 5 years	181.3
Future minimum payments for operating leases	**416.3**

The table below details all the future minimum payments under non-cancellable operating lease agreements for Medica Group facilities in the process of being created for 2010:

Commitments under operating lease agreements concerning facilities being created (without discounting):

In millions of euros	2010
Less than 1 year	1.0
Between one and five years	24.1
More than 5 years	43.9
Future minimum payments for operating leases	**69.0**

3. EVENTS AFTER THE BALANCE SHEET DATE

The Medica Group's capacity stood at around 13,800 beds at 11 February 2011.

In parallel with its new financing, the Group has taken out fixed-rate swaps as of January 2011 in the amount of €350 million, including €100 million maturing on 31 December 2013 and €250 million maturing on 30 June 2014.

As of January 2011, the average interest rate for these hedges will come to around 1.7%, down 200 basis points compared with existing fixed-rate swaps in 2010.

4. THE MEDICA GROUP'S MAIN RISKS

4.1 RISK FACTORS

RISKS ASSOCIATED WITH THE MEDICA GROUP'S BUSINESS

Regulatory risks

The Medica Group's long-term care and post-acute and psychiatric care operations must comply with a set of strict regulations specific to each segment, as well as numerous environmental, hygiene, safety and ethics-related regulations, particularly with regard to facilities open to the public.

Under these regulations, the Group's facilities must obtain various prior authorisations and are subject to assessment by the French State, local departmental authorities and decentralised bodies that supervise them. They must also comply with strict standards as regards health and safety (in particular fire prevention and asbestos exposure), ethics, environmental protection and the disposal of medical waste.

If these regulations were to be tightened up or applied in a different way, the Medica Group's operating environment could change and result in increased capital expenditure (e.g. for upgrading its facilities) or increased operating costs (e.g. due to additional procedures, inspections or supervision), or restrict the Group's growth. Although the Group endeavours to plan ahead for such changes, they are not always foreseeable. Any unforeseen changes could adversely affect its strategy, financial condition, results and growth outlook.

Likewise, failure to comply with any of the applicable regulations could also result in the suspension or withdrawal of operating licences, which could affect the Group's ability to operate its facilities.

Risks associated with trends in social policy and fee rates applicable in France

For nursing homes, the local departmental authorities (*Conseils Généraux*) set the rates for long-term care services whilst the national health service (*Assurance Maladie*) sets rates for medical treatment, with the local authorities bearing part or all of the cost.

Reimbursement of these services and the rate of reimbursement depend in part on French social policy at any particular time. They are therefore subject to change as the level of funding may either be increased or decreased. More generally, if nursing home residents were to receive lower social security allowances, the Medica Group could under certain circumstances be forced to lower accommodation fees to adapt its range of services to the financial resources of patients and their families. More particularly, any reduction or change in the method of allocating social security allowances, such as the personal independence allowance currently paid by French local departmental authorities, or in the rate of reimbursement of medical expenses by the national health service, could affect the solvency of residents and/or patients and thereby increase the risk of non-payment.

For the post-acute and psychiatric care segment (which accounted for about 27% of consolidated revenue in 2010), a reduction or cap on care rates could have an adverse impact on the Medica Group's operations and results.

Generally speaking, any unfavourable trend in social and pricing policy in France, particularly with respect to private for-profit operators, could have a material adverse impact on the Medica Group's operations, strategy, financial condition, results and outlook.

Risks associated with obtaining and retaining operating licences in France

Obtaining and renewing licences

To operate a nursing home in France, operators must first obtain authorisation from the regulatory authorities. Licences are granted if there is a proven need identified in the gerontology section of the social and medical care plans drawn up by each local departmental authority ("***Schéma Gérontologique Départemental***") and a Regional Healthcare Plan drawn up by the Regional Health Agency ("**ARS**"). These licences are valid for a period of 15 years under the law of 2 January 2002. The renewal dates for the Medica Group's nursing home licences are between 2017 and 2023.

Post-acute and psychiatric care facilities require a licence from the regulatory authorities, issued for a minimum period of five years. Licences are only granted if there is a need identified in the regional medical care plan ("***Schéma Régional d'Organisation Sanitaire***") drawn up by the Regional Health Agency.

Licences are issued and renewed by the competent regulatory authorities subject to compliance with minimum technical organisational and operational standards. Like all operators, the Medica Group has had to reapply for its post-acute care licences to comply with the new standards set out in the decrees of 17 April 2008. These decrees do not apply to psychiatric facilities. All of the Medica Group's post-acute care facilities had their authorisations renewed in late 2010, which will be submitted for approval during a compliance visit by the regulatory authorities within the next two years. These authorisations may be called into question in whole or in part if the regulatory authorities observe during their visit that they fail to comply with the commitments made in the request for authorisation.

Failure to meet any of these standards or amendments to the various public authority care plans, and/or the development of competing projects able to meet the needs identified in these plans could make it more difficult for the Group to obtain or renew its operating licences.

Assessment of facilities and licence continuation

Long-term care and post-acute rehabilitation and psychiatric care facilities must be assessed regularly (or "certified" for post-acute and psychiatric facilities) by an external organisation approved by the French national agency for the assessment and quality of care facilities (**ANESM**) for nursing homes and by the French National Health Authority for post-acute and psychiatric facilities. These assessments are required for the licence to be maintained. Long-term care homes must be assessed twice between the licence grant date and renewal date, which means about every seven years on average. Post-acute and psychiatric facilities are assessed by experts from the French National Health Authority every four years. If the quality standards are not met, nursing homes and post-acute and psychiatric facilities may lose their licence or have it suspended for a given period.

When facilities are acquired, the transfer of the operating licence must be approved by the competent regulatory authorities. As the Medica Group has an active acquisition policy, there is a risk that licences may not be transferred, which could have a material adverse impact on the Group's growth strategy.

Failure to obtain or suspension or withdrawal of licences could restrict the Group's growth or lead to a direct loss of customers in the event of temporary or definitive closure, or an indirect loss due to the potentially negative impact on the Group's image and reputation. These events could have a material adverse impact on the Group's operations, strategy, outlook, financial condition and results.

Risk associated with tripartite agreements and medium-term targets and resources contracts in France

Risk associated with tripartite agreements

Nursing homes for the elderly must sign a tripartite agreement with the local departmental authority (*Conseil Général*) and the Regional Health Agency (ARS) on behalf of the French national health service (*Assurance maladie*). Among other things, these agreements set the rates paid for care and medical treatment, as well as the nature of related services. Under the agreements, the facility director undertakes to provide the necessary resources in terms of qualified staff to accommodate and care for residents. The director also undertakes to meet qualitative objectives set out in the facility's business plan.

All nursing homes are required to sign a tripartite agreement under the terms of Article L.313-12 of the French Social and Family Action Code.

Tripartite agreements are valid for five years. and must then be renewed. Depending on when the Group's agreements were signed, renewals are spread out over time. As at 31 December 2010, the Group had already renewed 45% of its "first-generation" tripartite agreements.

If the Medica Group were unable to renew one or more tripartite agreements, operating licences for the relevant facilities could be suspended or withdrawn.

In addition, it is possible that on renewal of the tripartite agreements or the medium-term targets and resources contracts, the applicable quality and financial standards may be raised by the local departmental authorities and the Regional Health Agencies.

If these risks were to materialise, they could adversely affect the Group's operations, strategy, financial condition, results and growth outlook.

Risk associated with the competitive environment

The Medica Group faces strong competition from many operators in both the long-term and post-acute and psychiatric care segments.

The long-term care market is highly diversified, both in terms of facilities and services provided. Nursing homes compete with other services offered to the elderly, particularly home care, which has been supported and promoted in recent years by the public authorities. To a lesser extent, they also compete with various types of sheltered or supervised accommodation. Market operators are highly diversified and may be public-sector, private-sector or not-for-profit associations.

The private sector care market is also experiencing a wave of consolidation, which has further intensified competition. Market consolidation (either completed or underway) has resulted in the emergence of some large regional and national groups, some of which are listed and may have substantially greater resources than the Medica Group.

The Group's ability to sustain or strengthen its position in the short or long-term care market will depend on its ability to develop its residential capacity and services and meet the needs of residents and patients. For post-acute and psychiatric facilities, new patients are mainly referred by hospitals, whilst referrals for nursing homes are made by families, GPs or the social services. They advise future patients and residents on their choice of care home based on a broad set of criteria including geographic location, perceived quality of care, staff skills and availability of beds. Social services or GPs could change their referral approach and give priority to facilities run by competing operators offering higher quality services, lower prices or located closer to the home of the patient or the patient's family.

Competition also has an influence on the Group's ability to acquire new facilities. The number of nursing home operating licences is limited by the local departmental authority gerontology plans. In addition, as any increase in bed capacity in post-acute and psychiatric facilities must be provided for in the regional medical plans, the main growth prospects lie in acquisitions. In addition, the system of bidding for new operating licences introduced on 1 July 2010 could intensify competition between the various sector operators.

As a result, the Medica Group's competitors with greater financial resources, a stronger regional or local presence, or generally better appeal may offer higher prices than the Medica Group can or is prepared to pay or they may receive preferential treatment from acquisition targets, thereby restricting the Medica Group's growth strategy. Any of these circumstances could adversely affect the Group's growth, operations and results.

Climate risks

Employees and facilities must be prepared for abnormal weather conditions, which could put the health of residents and patients at risk, as happened during the heat wave in France in the summer of 2003.

Such events are unpredictable by nature. Long-term care and post-acute and psychiatric care facilities catering for the elderly must ensure that internal systems are in place to take swift decisions when required for the safety and well-being of residents and patients. This includes mobilising staff, supervising residents and patients, and cooling premises as soon as a weather alert is issued. The Group could encounter difficulties in implementing or fail to fully implement these arrangements, which have been applicable by law to nursing homes since February 2004 under the government's "*Plan Bleu*". In addition, if its facilities fail to respond adequately to such abnormal conditions, they may be held liable and their public image could be affected, thereby diminishing their appeal. This could have an adverse impact on the Medica Group's operations and results.

Risks of epidemic or pandemic

The outbreak of an epidemic, pandemic or fears of an outbreak could have an adverse impact on the Group's business operations and costs and, therefore, on its financial condition and results. More specifically, it could lead to a loss of business and additional expenditures and costs incurred in implementing exceptional health and safety measures.

Staff risks

The quality of services offered by the Medica Group as well as its business levels could be affected by a shortage of qualified staff in the market or by its failure to retain qualified employees over the long term, and particularly nursing staff.

Likewise, wage pressures due to competition from the public sector or competing private sector facilities could increase the Medica Group's operating costs and put pressure on operating margins.

Business growth could be hampered by staff shortages and the quality of its services could be adversely affected.

Risks specific to the Medica Group

Medical, health and safety risks

Medical, health and safety risks are a constant concern in long-term care and post-acute and psychiatric facilities. A medical, health or safety incident would be particularly serious for the Group as its residents and patients are primarily dependent and therefore highly vulnerable.

The Group's operations are therefore more particularly exposed to a number of medical risks, including for example the risk of nosocomial infection or risks related to the prescription and administration of drugs to residents and patients. Its facilities are also exposed to health and safety risks, mainly as regards food and water quality, but also legionnella and fire risk.

If any of these medical, health or safety risks were to materialise, the Medica Group could held liable and an operating licence could be suspended or even withdrawn for failure to comply with applicable regulations, which may result in the temporary or permanent closure of one or more facilities. This could have an adverse impact on its reputation, operations, financial condition, results and outlook.

Ethical risk

Although the Group endeavours always to observe strict ethical standards when caring for the dependent, the risk of real or alleged abuse cannot be ruled out. Legal action for abuse could be brought against the Group's employees or companies. This could have a material adverse impact on the Group's image and reputation and lead to a decline in the occupancy rate in its facilities, thereby affecting its operations, growth outlook, financial condition and results.

Environmental risks

The Medica Group's business is subject to environmental and public health laws and regulations. If these laws and regulations were to become stricter, the Group could incur additional expenses.

As part of its ongoing business operations, the Medica Group produces and stores waste, including medical waste which carries a risk of infection or other harmful effects for the environment or human health.

The storage, treatment and transportation of waste are strictly regulated. Should the Medica Group or the waste disposal service provider fail to comply with these regulations, the Group could be liable to prosecution, which could adversely affect its operations and financial condition. These events could also have an adverse impact on its reputation and image.

Commercial and operating risks

Given the type of services it provides, the Medica Group is highly exposed to potential claims by residents and patients or their families regarding the treatment dispensed or accommodation provided.

In recent years, an increasing number of legal actions have been brought in France against care staff, doctors and the facilities in which they work, particularly for professional negligence. Doctors providing services in the Group's facilities are personally liable for any negligence in their care activities. However, it is possible that legal action could be taken against Group companies for payment of damages due to negligence or misconduct by employees.

The Medica Group's insurance policies may not cover all legal actions against the Company or its subsidiaries, or may be insufficient to protect the Group. Furthermore, the Group may not be able to obtain adequate insurance coverage or obtain it at an acceptable cost if there were a significant increase in the number of medical negligence claims against it or against care facilities generally.

The reputation of the facility involved and of the entire Medica Group could be affected if a resident or patient were to make a negligence claim against a doctor, even if unfounded. This could affect the Group's image and communications policy, which is largely based on conveying an image of quality. This could have a material adverse impact on the Group's operations, growth outlook, financial condition and results.

Risks associated with the departure of key personnel

The Medica Group's success depends to a large extent on the quality and experience of its management team, and particularly the people who have been employed by the Company since it was acquired by the Caisse des Dépôts in 1999. These people have acquired an excellent knowledge of the Medica Group and the sector in general, having seen it develop since 1999 and having taken part in the Group's acquisitions. It is not possible to guarantee that the executives and other key employees will remain with the Medica Group in the future, particularly in the highly competitive environment currently prevailing in the long-term care market.

The departure of one or more of these people, or the Group's inability to attract, train, retain and motivate highly-qualified employees and executives, could restrict its ability to expand and could have a material adverse impact on its operations, growth outlook, financial condition and results.

Risks relating to acquisitions

Historically, a large part of the Medica Group's growth has been derived from the acquisition of companies or facilities operating in the care sector. However, for the past few years, there has been considerable consolidation in the sector. The Medica Group cannot therefore guarantee that it will be able to make the acquisitions required to expand its business on acceptable economic and financial terms in the future, especially given the limited acquisition opportunities, or that the acquisitions it does make will be profitable or will not adversely affect the Group's financial condition, results or business strategy.

In addition, the acquisition of companies operating one or more long-term care or post-acute and psychiatric facilities carries a number of risks linked to the Group's assessment of: (i) the strengths, weaknesses and potential profitability of its acquisitions; (ii) the short-term effects on the Group's operational performance; (iii) executive and management time taken up by these acquisitions; and (iv) in the event of acquisitions outside France, additional risks related mainly to the Group's less extensive knowledge of the local regulatory, economic and social environment or of the risks involved in integrating the new units or businesses within the Group.

Other risks may come to light after an acquisition, especially in the event of a large-scale deal. These include the discovery of issues related to the acquisition (e.g. lack of liability warranties) or their financing, the cost of the investments required to bring the acquired company up to Group standards, the possibility that post-acquisition synergies may not be achieved and the cost of merging infrastructure.

Risks involved in opening new facilities

The Medica Group does not take on the real estate development risks involved in opening new facilities. However, it may be exposed to a number of risks including, for example, additional costs or delays in the start-up of projects in the event of third-party objections to building permits or in the completion of a project due to potential failure on the part of subcontractors or - albeit to a lesser extent given the shortage of supply in the care market - the marketing risk.

Information systems risks

The Medica Group and/or its suppliers use a number of information systems and applications, particularly for managing residents, patients, and human resources. These applications also play an important role in management control. The Medica Group and/or its suppliers have back-up systems for their databases. However, given the number of residents and patients, business could be disrupted if these information systems were to fail or the databases were to be destroyed or damaged.

Outsourcing and supplier risks

The Medica Group works with a number of service providers and suppliers in its business activities.

It has entered into three main outsourcing agreements:

Two with Medirest, one covering catering for post-acute and psychiatric facilities and the other covering the supply of food to nursing homes through the Servirest central purchasing agency;

The third agreement is with the Punto Service social cooperative in Italy, which provides the operating resources required to run facilities, excluding management and administration.

Although the Medica Group does not believe it is dependent on one or more of its service providers or suppliers, if one or more of them were to go out of business or the quality of their services or products were to decline, this could have an adverse impact on the Group. More specifically, it could lead to a decline in the quality of daily services and to a rise in related costs, particularly if it has to replace a service provider with a more expensive one. This could also have an adverse impact on the Group's reputation and image and, therefore, on its operations, financial condition and results.

Given the specific nature of the Group's care activities, a new service provider might also need a period of transition to acquire the same level of knowledge about the Group's facilities as the previous supplier. Replacing Sudeco could require a period of adjustment for a new provider to become familiar with the specific nature of the properties to be managed. Such a change could thus lead to a temporary decline in the efficiency of services provided, and more generally the quality of services provided, as well as the satisfaction of residents or patients during the transition period and thus to additional costs owing to the change in service provider.

Risk associated with the concentration of commercial leases with a limited number of landlords

Around 70% of the Medica Group's facilities are operated under commercial leases. Just six of the Medica Group's landlords directly or indirectly own more than three facilities, and together these landlords own just 48% of the buildings let to the Medica Group. The failure of one or more of them could have an adverse impact on the Group's business operations.

Liquidity risks associated with the Medica Group's debt

The Group has carried out a specific review of its liquidity risk and considers that it is in a position to honour its future repayments.

As at 31 December 2010, bank debt and lease obligations totalled approximately €512 million. The bulk of this debt comprises a credit line taken out in June 2010 as part of a €350 million club deal involving leading banks, as well as property leases taken out primarily in December 2010 as part of a sale and leaseback agreement worth around €130 million.

The following table shows a maturity schedule for these borrowings at 31 December 2010 (excluding the accumulated amortised cost impact):

In millions of euros	Less than one year	Between one and five years	More than five years	Redemption value
Syndicated bank borrowings and other financial liabilities	3.8	356.5	4.8	365.1
Finance leases	11.3	40.3	83.4	134.9
Current bank borrowings	12.3			12.3
Total redemption value	**27.4**	**396.8**	**88.2**	**512.3**

All the Group's borrowings are denominated in euros.

The bank loans contain a number of covenants and financial ratios, which the Medica Group has always respected. These ratios are set out contractually, tested twice a year and audited each year by the Medica Group's statutory auditors.

The covenants and restrictions could:

affect the Group's ability to obtain additional financing for acquisitions, investments or any other purpose;

require the Group to devote a significant percentage of its operating cash flow to interest payments, thereby reducing its ability to finance working capital requirements and capital expenditure;

reduce its ability to pay dividends; and

weaken its competitive position vis-à-vis competitors with greater financial resources.

The bank documentation includes a change of control clause covering a situation where a shareholder or a group of shareholders would acquire control within the meaning of article L.233-3 of the French Commercial Code.

The Group's future ability to comply with the contractual restrictions and covenants in certain loan agreements or to refinance and repay its borrowings as scheduled will largely depend on its future operating performance and may be affected by numerous factors beyond its control. Breach of contractual commitments could lead to acceleration of the loans, forcing the Medica Group to cut or postpone its investment spending, raise additional capital or restructure its debt.

Interest rate risk

At 31 December 2010, about 97% of the Group's bank loans and leases were floating-rate borrowings. The Group has adopted a hedging policy to protect against changes in interest rates, using floating to fixed interest rate swaps.

Risks associated with intangible assets

At 31 December 2010, the Medica Group had €925.1 million in intangible assets on its consolidated balance sheet, including €367.4 million in goodwill and €553.9 million in operating licences. The Medica group tests goodwill and licenses for impairment annually. The occurrence of certain future events, which are by nature unpredictable, could lead to the impairment of certain intangible assets. Significant impairment losses could have an adverse impact on the Group's financial condition and results in the year of recognition.

Risks associated with the Medica Group's activities in Italy

The Medica Group's facilities in Italy, which contributed around 11% of consolidated revenue in 2010, are governed by a similar regulatory environment as its French facilities. The principal risks relating to this business sector and the risks specific to the Medica Group, including the operational risks described above, also apply to its operations in Italy. However, in order to provide the operating resources needed for the running of its facilities, the Medica Group uses the services of the Punto Service social cooperative in Italy. The Group does not believe it is exposed to real estate risks in Italy as, apart from one finance lease, it does not own the real estate. Changes in the regulatory framework and requirements governing the Group's Italian operations could have an adverse impact on its strategy, financial condition, results and growth outlook in Italy.

4.2 RISK MANAGEMENT POLICY

The Medica Group's code of conduct is based on respect for individuals and demanding quality standards.

Daily risk management forms an integral part of the procedures adopted by the Medica Group as part of a quality and best professional practices approach at its facilities. It covers all areas of activity in the facilities, including medical information channels and confidentiality, medication, food, linen and water).

A prevention plan is defined by each facility and reviewed annually by the facility director. It includes:

crisis management unit composition, duties and operating rules;

accommodation and circulation arrangements to be implemented;

arrangements for employee information and communications;

prevention and treatment arrangements particularly in the event of a heat wave, epidemic or pandemic (H1N1 influenza, H5N1 influenza, etc.);

arrangements for keeping the facility running in a crisis situation (business continuity plan).

This section presents the principal measures taken by the Medica Group to limit its exposure to the risks inherent in its long-term care and post-acute and psychiatric care operations. The procedures described below are assessed and controlled by the Medica Group at each facility twice a year.

Operational risk management

Property portfolio

(a) Technical safety inspections required by law for facilities open to the public

One of the Medica Group's prime objectives is to ensure the safety of its buildings and equipment at all times. It monitors the state of repair of all its properties and their compliance with safety standards, and appoints specialist organisations to inspect its facilities for safety, compliance and proper operation.

More particularly, the Medica Group pays close attention to fire prevention. A fire at one of its facilities could have severe consequences as its residents are dependent and have reduced mobility. In accordance with the regulations, the Medica Group maintains a safety register and inspects fire detection equipment twice a year. It also provides staff safety training four times a year, and a technical inspection report is prepared every six months.

(b) Water

In 1999, the Medica Group introduced procedures to monitor the quality of its water systems (for example, potability and legionnella testing). All samples are monitored and analysed by external inspectors who implement and verify remedial measures in conjunction with each facility director. Agreements have been signed with Bureau Veritas, which supervises the monitoring of water supply and checks the water quality monitoring records for all facilities. The Group has also appointed Biomnis (formerly Mérieux)[6] to analyse the physical and chemical properties of the water and to test for legionnella at all its facilities.

Food

The supply of catering services for residents and their guests is an integral part of the services provided by the Medica Group in its care facilities. All catering services in the post-acute and psychiatric facilities are outsourced to Medirest[7]. Medirest also controls the quality of the food used in meal preparation and carries out annual hygiene audits on premises, staff, equipment and compliance with HACCP procedures (Hazard Analysis Critical Control Point, food safety methods and management principles).

Moreover, to help prevent the risk of food contamination or poisoning in its nursing homes, the Group has appointed Eurofins[8], an independent laboratory, to carry out a half-yearly analysis of its kitchen and food storage spaces, and also to sample and analyse dishes. These inspections ensure the integrity of the cold chain, control and prevention of food poisoning risk, kitchen and sanitary facility maintenance and compliance with hygiene procedures and HACCP standards. Inspections are done on a spot check basis. A half-yearly audit is carried out to ensure compliance with established procedures and to perform certain HACCP checks. In accordance with best practices, the Medica Group has also developed procedures to be followed in the event of a food poisoning outbreak.

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6 Biomnis is one of the leading European laboratories in specialist biology, with almost 1,500 agents in mainland France, the French overseas departments and territories and abroad.

7 Medirest, a subsidiary of the Compass Group, specialises in catering and services for healthcare for the elderly.

8 Eurofins is a leading international group of laboratories providing food testing services.

Best practices

Through its business operations, the Medica Group may be exposed to certain medical risks relating to the medical care provided in its nursing homes or post-acute and psychiatric facilities (medical waste management, drug distribution, nosocomial infections, heat wave, epidemics, pandemics, resident falls, resident abuse etc.). A guide to best practices and procedures has been drawn up to limit exposure to these risks. The main procedures are described below.

– **Drug administration**

The Medica Group has introduced several procedures covering the receipt, prescription, administration and possible recovery of drugs administered to its residents. These procedures also include traceability records to avoid the risk of overdose, incorrect drug administration or theft. Doctors are responsible for drug prescription, and the pharmacist (if there is an internal dispensary) or a state-registered nurse is responsible for preparing the treatment and for its administration. For traceability purposes, a record is kept of each dose administered.

– **Abuse**

In order to prevent the risk of physical or psychological abuse of residents and patients, the Medica Group has drawn up a guide to the best practices and procedures to be followed by all its care staff.

Special efforts have been made in all aspects of training related to the development of proper care and treatment. Training is designed to help care staff deal with their own stress and their relationships with residents and their families. An internal alert procedure has also been established in addition to the compulsory training provided to all staff, education about risk prevention and, more generally, the respect due to residents and patients. The aim of this procedure is to inform the facility director immediately of any suspected abuse. The director may then undertake an internal enquiry, take appropriate measures with respect to the patient's family and the social services - in particular the Regional Hospital Agency - and manage the reputational risk in conjunction with the Medica Group's senior management. If the suspected abuse is confirmed, the facility director informs the relevant legal authorities after obtaining approval from the Group's legal department.

– **Nosocomial infections**

Procedures have been drawn up to prevent the risk of exposure to nosocomial infection in the Group's facilities. These procedures apply to all the Group's facilities and include recommendations on basic hygiene (hand-washing and disinfection) as well as specific measures such as the conduct to be followed during isolation periods to limit the risk of infection. Infections are also systematically recorded in post-acute and psychiatric facilities to ensure traceability. Records are monitored by the Anti-Nosocomial Infection Committee, which has been obligatory in all hospital facilities in France since 1988. To date, the Medica Group has not been involved in any legal action relating to nosocomial infections.

– **Heat waves**

Prolonged exposure to heat or heat waves, such as that experienced in France in the summer of 2003, may result in serious risks for the most vulnerable dependent people, particularly the elderly. The Medica Group has established procedures that are compliant with the provisions of the French National Heat Wave Plan. In the event of extreme temperatures, these procedures set out the measures to be taken to keep the premises cool during the day and at night (through air flow and/or the use of vaporisers or mobile air conditioning equipment) to ensure that residents and patients are exposed to heat as little as possible and to eliminate the risk of dehydration.

– **Epidemics and pandemics**

The Medica Group endeavours to limit exposure to the risk of an epidemic and/or pandemic in its facilities. Its Medical Department has drawn up a set of formal recommendations and best practices in the form of an influenza pandemic prevention and control plan. In addition, all employees have been informed about the free vaccination campaign provided by the Group for seasonal influenza. The health authorities are kept informed on a regular basis about the measures implemented at each facility.

– **Resident falls**

As the Medica Group cares for dependent people, all its staff are trained in the risk of resident and patient falls, which can have relatively serious consequences on their general state of health, particularly for elderly people in the Group's long-term care facilities.

Falls are reported and recorded, and the resident's or patient's family is informed. First aid is immediately administered to determine the seriousness of the fall and whether or not swift transfer to a specialist department is required.

– **Medical waste**

The Medica Group has established standard procedures for managing contaminated medical waste and its removal, with the aim of ensuring the safety and traceability of all waste. Facility directors are responsible for ensuring that measures to dispose of sharp objects or medical waste are properly applied. More specifically, medical waste must be disposed of in secure intermediate receptacles, then in special closed containers and premises intended for this purpose, to avoid any contamination of staff or patients. The removal of medical waste is logged and dealt with by specialist external service providers.

IT-related risk management

In order to limit the risks relating to loss of IT data or intrusion of systems containing sensitive data, such as internal reports concerning occupancy rates or revenues at its centre, patients' medical records and inventories of medicines in stock, the Medica Group has centralised and secured all its application and infrastructure platforms at an SFR Business Team Datacentre,[9] which hosts the Group's core information system.

Financial risk management

The Medica Group may be exposed to several types of financial risk in its business activities: market risk (risk of changes in market prices and exchange rates), credit risk and liquidity risk. Its risk management policy, which focuses on the unpredictability of the financial markets, seeks to minimise the potentially adverse effects on financial performance.

Counterparty risk

The Medica Group is not exposed to any significant concentration of counterparty risk. In the long-term care sector, accommodation charges are paid in advance by residents, eliminating counterparty risk. This is not the case for additional services (such as private rooms, televisions and telephones) in the post-acute and psychiatric segment. As regards care and dependency fees in the long-term care and post-acute and psychiatric care segments, there is no counterparty risk in practice, as these costs are paid for by the national health service and the local departmental authorities.

Interest rate risk

The Medica Group has a hedging policy to protect against fluctuations in interest rates. It has taken out an interest-rate swap for a nominal amount of €350 million, swapping 3-month Euribor for a fixed interest rate of around 3.7%. This swap covered over 68% of its bank debt and lease obligations at 31 December 2010.

In addition to obtaining these new credit facilities, the Medica Group adjusted its interest rate hedging policy in July 2010 in order to optimise its borrowing costs.

The Medica Group entered into a fixed-rate swap agreement with effect from January 2011 and based on an amount of €350 million, of which €100 million expires on 31 December 2013 and €250 million on 30 June 2014.

As of January 2011, the average interest rate for these new hedges comes to around 1.7%, down 200 basis points compared with previous fixed-rate swaps.

Crisis management

In parallel with procedures and policies to prevent and respond to operating risks, a team comprising the facility director, the Chief Executive Officer and a press spokesperson is responsible for taking charge of various situations considered to require specific management attention (e.g. a fire or a malicious act resulting in injury, a critical weather event or water pollution), in view of their possible effects on residents and potentially adverse impact on the reputation of the Company and the Medica Group. This unit defines the immediate responses to be implemented at the relevant facility and endeavours to carry out the requisite communication initiatives.

[9] SFR Business Team, a Vivendi subsidiary, is an alternative fixed and mobile telephone operator in the French business market.

Insurance

All subsidiaries are covered by Group insurance policies. All the various insurance policies are taken out by Medica France and each subsidiary is included as an insured entity, to ensure the broadest possible coverage and competitive prices, and to rationalise and control risk coverage within the Group. The premiums are charged back to the subsidiaries by Medica France on an annual basis.

The Medica Group paid around €0.5 million in insurance premiums in 2010.

Insurance policy

The Medica Group's policy as regards insurance aims to protect its assets and cover its liability. More particularly, it takes out all insurance required to comply with safety regulations governing facilities open to the general public. The following essential considerations are taken into account:

– identifying and quantifying the most significant risks in terms of exposure and sums insured;

– purchasing insurance coverage for the reasonably foreseeable amount of potential claims. These sums are based on risk estimates drawn up in conjunction with Group's internal departments, its insurance broker and the insurers' technical departments;

– verifying insurer solvency.

The principles outlined above and the coverage described below are provided for indicative purposes only and may be revised due to changes in insurable risks and the level of insurance required. Insurance levels may also change at any time due to insurance market constraints and/or strategic decisions made by the Group.

The Group's global coverage policy may also change given the large number of facilities it operates, their location and specific features, or their activities (post-acute and psychiatric care or long-term care). In line with the objectives set out above and subject to insurance market constraints, the level of insurance taken out by the Group is designed to cover a significant proportion of claims whose amount and probability of occurrence can be reasonably estimated.

At the present date, no major and/or significant claim liable to affect future terms of insurance and the cost of insurance premiums and/or self-insurance has been made.

The Medica Group does not have its own captive insurance or reinsurance subsidiary and has opted for traditional self-insurance solutions negotiated with its insurance broker and the relevant insurers. Most of its self-insurance involves comprehensive business and civil and professional liability programmes. The self-insurance programme aims to identify the level of deductibles which the Group can reasonably bear whilst achieving the lowest total cost, based on the probability of claim and the amount that each facility can bear without jeopardising business continuity.

Insurance cover

Most of the insurance premiums paid by the Group are for comprehensive business risk and civil and professional liability, given their strategic importance in terms of sums insured and risk.

The Medica Group believes that its insurance coverage is comparable to that of its peers.

Comprehensive business insurance

The maximum main guarantees given per facility are as follows:

	Per facility
PROPERTY DAMAGE	
Buildings/rental risk	
Buildings, general equipment and machinery	Rebuilding cost
Rental responsibilities	Value of building
Contents	According to damage
Theft	€106,106
Other property damage	**€943,040**
All IT risks	
Damage to goods	**€474,350**
Interest on bank overdrafts	**€113,482**
RESPONSIBILITIES	
Liability to tenants, responsibility as owner-guardian, losses of rental income, liability to neighbours and third parties, or tenants' loss of use.	€5,283,747
CHARGES AND PECUNIARY LOSS	€3,188,859
OPERATING LOSSES	
Gross margin assured for a compensation period of 24 months	€7,500,000
MARKET VALUE AND FINANCIAL AID	€5,653,000

The main deductibles applicable under the Group's comprehensive business insurance have been set at €3,500 per claim for property damage and the equivalent of three days loss for business interruption, with a minimum of €3,500.

The contractual limit per facility is €19,500,000.

Civil and professional liability

The main guarantees given under this policy are as follows:

ALL DAMAGES (per claim per year)	€15,000,000
Non-consequential material and immaterial damage	€6,100,000 per claim
Non-consequential immaterial damage	€3,050,000 per year
Gross negligence following workplace accidents or professional sickness	€2,000,000 per year
Material and immaterial fire, explosion or water damage arising in business premises	€305,000 per claim
All physical, material and immaterial damage resulting from the same claim for those resulting from accidental pollution	€750,000 per year
Theft by employees	€150,000 per year
Bailee liability insurance	Twice the social security cap, in accordance with law 92-614 of 6 July 1992 (per bailor)

In the event of a claim, the deductible is set at €3,500 for all property damage and consequential loss. There is no deductible for bodily injury.

Other insurance

The Medica Group believes that other insurance coverage, particularly for its vehicle fleet and for executive officer liability, is in line with insurance market standards.

The Group's Italian facilities are covered by separate insurance policies, taken out locally with Italian insurance companies. The Group believes that they provide coverage in line with market standards.

5. CORPORATE GOVERNANCE

5.1 Board of Directors

The Company is a *société anonyme* with a board of directors.

- Jacques Bailet is Chief Executive Officer and Chairman of the Board of Directors. Christine Jeandel is Chief Operating Officer. She is not a director.
- Board practices and corporate governance rules are set out in the Chairman's report prepared in accordance with the provisions of Article L. 225-37 of the French Commercial Code.
- As part of the initial public offering, on 12 February 2010 the Company appointed three independent directors - Catherine Soubie, Gilles Cojan and Guy de Panafieu - for a term of three years ending at the annual general meeting held to approve the 2012 financial statements.

The table below presents full information on the directorships and other offices held by the directors in the last five years:

Name and first name or company name	Age	Date of expiry of term	Main position in the Company	Main directorships and other offices held outside the Company in the last five years
Jacques Bailet	59	Annual general meeting held to approve the financial statements for the year ended 31 December 2012	Chairman and Chief Executive Officer	- Chairman of the board of directors, Managing Director and Director of Medica Société Financière Médica (SFM) - Chairman of the board of directors, Managing Director and Director of Medica France - Chairman of the board of directors of Aetas - Chairman of SAS Les Quatre Trèfles - Director of Projenor - Representative of Medica SA, manager of Société Civile d'Investissement Groupe Medica - Representative of Medica SA, manager of Société Civile d'Investissement Groupe Medica II - Manager of Istar Industries - Representative of Medica France, manager of Topaze - Representative of Medica France, manager of Les Pins

Name and first name or company name	Age	Date of expiry of term	Main position in the Company	Main directorships and other offices held outside the Company in the last five years
				- Representative of Medica France, Legal Manager of SCI CMA - Representative of Medica France, Legal Manager of SCI CCN - Manager of the Institut des Bonnes Pratiques *Directorships expired in the last five years* - Representative of Medica France, manager of La Roche Samuel - Representative of Medica France, Legal Manager of SCI La Rochette - Representative of Medica France, member of the supervisory board of Invamis - Chairman of the board of directors of Qualité et Santé Suisse - Representative of SIF, director of Qualisanté - Co-manager of Gestion de Maison de Retraite - Chairman of the board of directors of Projenor
André François-Poncet	57	Annual general meeting held to approve the financial statements for the year ended 31 December 2012	Director	- Director of Picard Surgelés SA - Director of Picard Groupe (formerly OBO2) SA - Member of the supervisory board of OBO1 SAS - Member of the Supervisory Board of SFM SA - Director of Climatique de Super Cannes SCI - Manager of Bauches 7 SCI - Manager of BC-European Capital VIII-35 SC - Chairman of LMBO Europe SAS - Director of Elifin SA - Director of Novalis SAS

Name and first name or company name	Age	Date of expiry of term	Main position in the Company	Main directorships and other offices held outside the Company in the last five years
				- Director of OBO8 SAS
Jean-Baptiste Wautier	41	Annual general meeting held to approve the financial statements for the year ended 31 December 2012	Director	- Chairman of the supervisory board of OBO1 SAS - Chairman of the supervisory board of Medica SA - Chairman of OBO7 SAS - Manager of BC-European Capital VIII-35 SC - Manager of BC-European Capital VIII-37 SC - Director of TBU-3 International SA - Member of the Supervisory Board of BDR Thermea Group BV - Manager of BC Partners Sarl - Chairman of OBO1 SA (before conversion into SAS)
Denis Villafranca	38	Annual general meeting held to approve the financial statements for the year ended 31 December 2012	Director	- Member of the supervisory board of Medica SA - Member of the supervisory board of OBO1 SAS - Director of Amadelux Investments SA - Director of Amadeus International Sarl - Director of Amadeus IT Group SA - Director of WAM Acquisition SA - Director of OBO6 SA - Director of OBO5 SAS - Director of OBO4 SA - Manager of BC Partners Sarl - Manager of BC European Capital VIII-36 SC - Director of Serafina Holding Ltd - Director of Serafina Acquisition Ltd - Director of OBO1 SA (before conversion into SAS)

Name and first name or company name	Age	Date of expiry of term	Main position in the Company	Main directorships and other offices held outside the Company in the last five years
Guy de Panafieu	67	Annual general meeting held to approve the financial statements for the year ended 31 December 2012	Independent director	- Member of the supervisory board of IDI - Member of the supervisory board of Métropole Télévision (M6) - Member of the board of directors of Sanef - Chairman of the supervisory board of Gras Savoye
Gilles Cojan	56	Annual general meeting held to approve the financial statements for the year ended 31 December 2012	Independent director	*In relationship with Elior (France and abroad)* Member of the supervisory board of Bercy Présidence SAS, itself managing partner of HBI SCA; Representative of ORI Investissements, member of the supervisory board of HBI (SCA); Representative of ORI Investissements, member of the supervisory board of Elior (SCA); Representative of Avenance on the board of directors of Elior Finance; Director of MyChef; Director of Elichef Holding; Director of Aeroboutiques de Mexico SA (formerly Latinoamericana Duty Free); Director of Areas (SA); Director of Operadora AeroBoutiques; Director of Textiles Deor; Director of Aero Boutiques Servicios; Director of Multiservicios Aeroboutiques SA; Director of Aerocomidas SA; Director of Servicios Aeropuertarios SA.

Name and first name or company name	Age	Date of expiry of term	Main position in the Company	Main directorships and other offices held outside the Company in the last five years
				Non Elior Group (France and abroad) Manager of ORI Investissements (S.A.R.L.). Chief Executive Officer of Sofibim Chief Executive Officer of Octant Partenaires, and permanent representative of Octant Partenaires Chief Executive Officer of Bagatelle Investissement et Management Director of El Rancho (formerly "Carest") Director of Medica
				Directorships expired in the last five years
				In relationship with Elior (France and abroad) Director of Elior UK Limited; Director of Avenance Plc; Director of Digby Trout Restaurants Ltd; Director of Elior Holland Ltd; Director of Elior Nederland BV; Director of Eliance Restaurants Ltd; Representative of Avenance Enseignement et Santé, director of Eliance Belgium; Director of Hold and Co; Chief Executive Officer of Avenance; Chief Executive Officer of Eliance.
Catherine Soubie	45	Annual general meeting held to approve the financial statements for the year ended 31 December 2012	Independent director	*France and Belux:* Managing Director, Deputy Head of Investment Banking for France at Barclays Capital
				Directorships expired in the last five years

Name and first name or company name	Age	Date of expiry of term	Main position in the Company	Main directorships and other offices held outside the Company in the last five years
				- Deputy Chief Executive Officer of Rallye - Director of Mercialys - Permanent representative of Euris SAS on the Board of Directors of Rallye - Permanent representative of Casino, Guichard-Perrachon on the Board of Banque du Groupe Casino SA - Permanent representative of Matignon Sablons on the Board of Groupe Go Sport - Permanent representative of Finatis on the Board of Casino, Guichard-Perrachon - Director of the Euris Foundation - Legal Manager of EURL Bozart - Chairman of the Board of Directors of Groupe Go Sport - Director of Groupe Go Sport - Permanent representative of Miramont Finance et Distribution on the Board of Directors of Groupe Go Sport

5.2 Committees

The Board of Directors may form committees, of which it determines the members and remit and which perform their activities under its authority. The role of these committees is to assist the board of directors with its duties. At its meeting of 29 March 2010, the Board of Directors set up an Audit Committee and a Compensation and Appointments Committee, more details of which are provided in the Chairman's report as set out in Article L. 225-37 of the French Commercial Code.

5.3. Compensation and benefits

5.3.1 Interests and compensation of members of the Board of Directors and executives

In euros	**2010 12 months**		**2009 12 months**	
	Amount due	**Amount paid**	**Amount due**	**Amount paid**
Fixed compensation				
J. Bailet	200,000	200,000	200,000	200,000
C. Jeandel	173,000	173,000	170,000	170,000
Variable compensation				
J. Bailet	115,000	115,000	115,000	115,000
C. Jeandel	100,000	100,000	100,000	100,000
Exceptional compensation				
J. Bailet	25,000	25,000	-	-
C. Jeandel	17,000	17,000	-	-
Benefits [10]				
J. Bailet	3223	3223	3,223	3,223
C. Jeandel	2272	2272	2,272	2,272
TOTAL				
J. Bailet	**343,323**	**343,323**	**318,223**	**318,223**
C. Jeandel	**292,272**	**292,272**	**272,272**	**272,272**
Directors' fees				
J. Bailet	-	-	-	-
C. Jeandel	-	-	-	-
André François-Poncet	23,850	13,425	-	-
Denis Villafranca	23,850	13,425	-	-
Jean-Baptiste Wautier	23,850	13,425	-	-
Catherine Soubie	25,850	13,425	-	-
Gilles Cojan	35,850	18,425	-	-

[10] Jacques Bailet and Christine Jeandel have a company car.

In euros	2010 12 months		2009 12 months	
	Amount due	Amount paid	Amount due	Amount paid
Guy de Panafieu	23,850	13,425	-	-

Mr Bailet is also a shareholder of the Company (see paragraph 6.1.1 "Allocation of shares and voting rights").

No stock option or share award plans were established in 2010.

The Chairman of the Board of Directors receives compensation determined by the Board of Directors on the proposal of the Compensation and Appointments Committee.

Members of the Board of Directors are paid only in the form of directors' fees. The total annual amount was set at €250,000 by the annual general meeting of 29 June 2010, for 2010 and subsequent years until a new decision is made. Directors' fees paid respect of 2010 totalled €157,100.

The terms for dividing up the total amount of directors' fees are set by the internal regulations of the Board of Directors. A fixed portion is divided up equally between all Board members and a variable portion is divided up according to members' attendance of Board meetings and meetings of the committees to which they belong. It was also decided that the Chairman of each specialist committee should be allocated a fixed amount.

Jacques Bailet waivered payment of his directors' fees.

André François-Poncet waivered payment of his directors fees in his capacity as Chairman of the Compensation and Appointments Committee.

5.3.2 All commitments corresponding to compensation and severance benefits

Executive director	Employment contract		Supplementary pension plan		Severance benefits		Non-compete benefits	
	Yes	No	Yes	No	Yes	No	Yes	No
J. Bailet Date appointed 9 November 2009 Term ends Annual general meeting to approve the financial statements for the year ended 31 December 2012	Yes[11]			No	Yes[12]		Yes[13]	

5.3.3 Total provisions for payment of pensions, retirement provision and other benefits

The total amount of provisions set aside by Medica SA for the payment of post-employment benefits amounted to €81,134 at 31 December 2010 compared with €73,538 at 31 December 2009.

[11] Jacques Baillet's employment contract was suspended on 10 February 2010 during his term of office.

[12] Termination payment right, which, in the case of the termination of the employment contract (except for gross negligence), results in a one-time payment of 18 months reference salary (calculated based on the average of the fixed and variable components of their salary during the 24 months preceding the termination of the employment contact), including annual bonus. As of the date of this document, this payment right was not tied to performance conditions.

[13] Non-compete benefits equal to 30% of the last fixed monthly salary for 12 months from the date of termination of the contract.

6. INFORMATION ABOUT THE SHARE CAPITAL

6.1 SHAREHOLDERS

6.1.1 Ownership of share capital and voting rights

As of the date of this report and to the Company's knowledge, the Company's existing share capital was broken down as follows (on the basis of notifiable interests reported to the Company);

Shareholder	Ordinary shares	
	Number of shares	% share capital and voting rights
TBU 3 International[1]	21,604,289	45.10%
J. Bailet	968,186	2.02%
C. Jeandel	590,391	1.23%
Société Civile d'Investissement du Groupe Medica[2]	183,352	0.38%
Société Civile d'Investissement du Groupe Medica II[2]	12,652	0.03%
Medica France Group employee share ownership plan	53,578	0.11%
Predica[3]	5,408,660	11.29%
Threadneedle Asset Management Holdings Limited (indirect subsidiary of Ameriprise Financial, Inc.)[4]	1,903,868	3.97%
Amundi, Société Générale Gestion, Etoile Gestion SNC[4]	980,626	2.05%
Other shareholders	16,198,585	33.81%
Total	**47,904,187**	**100%**

[1] TBU 3 International SA: a company owned by funds and vehicles advised by BC Partners, an international private equity firm operating in London, Paris, Milan, Hamburg, Geneva and New York.

[2]These investment partnerships were created by certain senior executives specifically for the purpose of acquiring an equity interest in Medica.

[3] Subsidiary of Crédit Agricole Assurances.

[4] Based on notifiable interests reported to the Company

6.1.2 Employee share ownership

The Medica France Group employee share ownership plan owned 53,578 shares at 31 December 2010, equal to 0.11% of the Company's share capital.

Within the framework of the Company's IPO, the principle of a capital increase reserved for employees was proposed at the extraordinary general meeting of 24 January 2010, to which over 3,000 employees subscribed. As a result, there is no need to decide on a capital increase of this kind in 2011 in accordance with the provisions of Article L. 3332-18 of the French Labour Code.

6.2 TABLE OF DELEGATIONS OF AUTHORITY FOR CAPITAL INCREASE

At their meeting of 29 June 2010, the shareholders granted the following delegations and authorisations to issue shares or other securities and main financial authorisations:

Resolution	Purpose of the resolution	Maximum amount	Term of authorisation (as of 29 June 2010)
7th	Authorisation to purchase the Company's own shares	10% of the Company's share capital at the time of purchase Maximum purchase price: €30 Maximum purchase amount: €55,960,398	18 months
10th	Authorisation to reduce the Company's share capital through the cancellation of treasury shares	10% of existing share capital at the date of cancellation	24 months
11th	Capital increase by making public offerings of shares or securities carrying rights to shares or debt securities, without pre-emptive rights	€6 million (shares)/€300 million (debt securities) to be deducted from the blanket limit set out in the 24th resolution	26 months
12th	Capital increase by making private placements of shares or securities carrying rights to shares, without pre-emptive rights	€6 million (shares)/€300 million (debt securities) to be deducted from the blanket limit set out in the 24th resolution and up to a limit of 20% of share capital per year or any other maximum percentage provided by law	26 months
13th	Capital increase by issuing shares or securities carrying immediate and/or deferred rights to shares of the Company, with pre-emptive rights	€12.2 million (shares)/€300 million (debt securities) to be deducted from the blanket limit set out in the 24th resolution	26 months
14th	Capital increase by issuing shares to members of a company or group employee savings plan, without preemptive rights, by issuing shares or securities carrying rights to shares of the Company	€100,000 to be deducted from the blanket limit set out in the 24th resolution	26 months
15th	Capital increase by capitalising reserves, earnings, share premiums or other capitalisable sums	€3.7 million to be deducted from the blanket limit set out in the 24th resolution	26 months
16th	Capital increase by issuing shares or securities carrying rights to shares in consideration for capital contributions in kind made to the Company, without pre-emptive rights	10% of share capital to be deducted from the blanket limit set out in the 24th resolution	26 months
17th	Increase of the issue amount in the case of oversubscription	15% of each issue up to the blanket limit set out in the 24th resolution	26 months
18th	Authorisation to issue shares or securities carrying rights to shares in the event of a share exchange offer	€6 million to be deducted from the blanket limit set out in the 24th resolution	26 months

Resolution	Purpose of the resolution	Maximum amount	Term of authorisation (as of 29 June 2010)
	made by the Company for the shares of another company, without pre-emptive rights		
19th	Authorisation to issue shares or securities carrying rights to shares with no pricing restrictions, without pre-emptive rights	10% of share capital to be deducted from the blanket limit set out in the 24th resolution	26 months
20th	Authorisation to use the delegations to increase or reduce the Company's share capital during a public offer concerning the Company's shares		26 months
21st	Delegation of authority to the Board of Directors to grant stock options	1% of share capital to be deducted from the blanket limit set out in the 24th resolution[14]	38 months
22nd	Delegation of authority to the Board of Directors to grant bonus awards of existing shares or shares to be issued in favour of salaried employees and executive officers of the Group, or some of them	0.5% of share capital to be deducted from the blanket limit set out in the 24th resolution	38 months
23rd	Delegation of authority to the Board of Directors to issue stock warrants (BSA) or redeemable equity warrants (BSAAR) for the benefit of employees and executive officers of the Company and its subsidiaries, without pre-emptive rights.	€200,000 to be deducted from the blanket limit set out in the 24th resolution Minimum price: 110% of the average closing price of the Company's shares for the 20 trading days preceding the date all of the terms of the BSA/BSAAR warrants and the terms of their issue are determined.	18 months
24th	Blanket limit	€12.2 million for capital increases €300 million for debt securities	26 months

[14] If the delegation of authority provided for in the 21st resolution and the delegation of authority provided for in the 22nd resolution are both used, the total number of shares granted and/or issued may not represent more than 1% of share capital.

6.3 Shares held by the company or on its behalf (Article L.225.211 of the French Commercial Code)

Since 3 March 2010, the Medica Group has appointed Exane BNP Paribas to act on its behalf in a liquidity agreement in accordance with the AMAFI Compliance Charter recognised by the Autorité des Marchés Financiers. To implement the agreement - which is renewable annually by tacit agreement - a sum of €2,000,000 has been allocated to the liquidity account.

In accordance with Article L. 225-211 of the French Commercial Code and Article 241-2 of the AMF General Regulations, it is here specified that since the start of the programme and at the settlement date of 31 December 2010, the Company has carried out the following stock market transactions:

The Company has purchased 465,074 of its own shares for a value of €6.7 million (equal to an average of €14.44 per share).

Over the same period, the Company has sold 366,023 of its own shares for a total of €5.3 million (equal to an average of €14.43 per share).

In respect of the liquidity agreement assigned at the settlement date of 31 December 2010, the Company held 103,820 shares representing a value of €1.4 million, equal to 0.2% of share capital.

6.4 Notification of acquisitions and disposals of cross-shareholdings - Summary of dealings in the Company's shares by executive officers and related persons

None

6.5 NOTIFIABLE INTERESTS

6.5.1 Legal thresholds

Between 10 February 2010 and 31 December 2010, the following shareholders reported notifiable interests to the AMF:

Shareholder	Date	Type	Number of shares/voting rights(2)	Percentage of share capital and voting rights (1) (2)	AMF notification
BNP Paribas	18/02/2010	Over	3,009,998	6.28%	210C0174
Crédit Agricole SA	18/02/2010	Over	5,408,820	11.29%	210C0176
BNP Paribas	19/02/2010	Under	256,950	0.54%	210C0184
TBU-3 International	23/02/2010	Under	21,604,289	45.10%	210C0191

(1) Based on information provided by the Company, in accordance with Article L. 233-8 of the French Commercial Code and Article L. 223-16 of the AMF General Regulations at the date of reporting of notifiable interests, it being specified that the total number of voting rights published monthly is calculated, in accordance with Article L. 223-11 of the AMF General Regulations, on the basis of all shares to which voting rights may be attached, including if applicable shares without voting rights (treasury shares).

(2) The Company's Articles of Association do not provide for double voting rights.

The full text of these declarations can be viewed on the AMF website (www.amf-france.org).

6.5.2 Statutory thresholds

On 16 November 2010, Threadneedle Asset Management Holdings Limited, whose registered office is in London, reported a number of notifiable interests in excess of statutory thresholds to the Company:

Date	Type	Number of shares/voting rights	Percentage of share capital and voting rights
9/02/2010	Increase	1,023,000	2.136%
7/07/2010	Increase	1,922,560	4.013%
9/11/2010	Decrease	1,903,868	3.974%

On 6 January 2011, the Amundi Group's three fundamental asset management companies (Amundi, Société Générale Gestion and Etoile Gestion SNC) sent the Company a shared declaration of notifiable interests exceeding statutory thresholds by 2% on 5 January 2011.

Date	Type	Number of shares/voting rights	Percentage of share capital and voting rights
5/01/2011	Over	980,626	2.05%

6.6 SHARE BUYBACKS

NONE

6.7 SUMMARY OF DEALINGS IN THE COMPANY'S SHARES BY EXECUTIVE OFFICERS AND RELATED PERSONS (L. 621-18-2 OF THE FRENCH MONETARY AND FINANCIAL CODE)

With the exception of the increases in share capital relating to the Company's IPO on 12 February 2010, in which the Company's executive officers participated, None of the executive officers dealt in the Company's shares during 2010.

6.8 FACTORS LIKELY TO HAVE AN INFLUENCE ON THE OUTCOME OF A PUBLIC OFFERING (IN ACCORDANCE WITH ARTICLE L.225-100-3 OF THE FRENCH COMMERCIAL CODE)

As of the date of this report:

The ownership structure is described in section "6.1.1 Ownership of the share capital and voting rights of Medica";

The Articles of Association contain no restrictions on the exercise of voting rights and transfer of shares;

There are no shareholders' agreements to the Company's knowledge;

There are no shares carrying special control rights;

The rules for appointing and removing members of the Board of Directors are those set out by law;

There are no agreements to pay the executive officers severance benefits in the event of termination or change of office following a public offer.

7. OUTLOOK

7.1 STRATEGY

The Medica Group is pursuing a strategy of controlled growth to consolidate its position as a key player in the long-term care market in France and Italy and to improve its operating margins. This strategy aims to meet the growing need for long-term care of the elderly in both France and Italy, the two countries where the Group operates. In this favourable environment, the group does not intend to substantially alter its business or geographical mix.

Its strategy is based on the following key drivers:

Generate strong organic growth through an active policy of opening new and restructuring existing care homes, whilst improving their operating margins

Pursue an active policy of opening new care homes

For several years now, the Medica Group has pursued an active policy of opening new long-term care homes. It intends to step up this policy by leveraging its nationwide presence, its 100% tripartite agreement coverage and the certified quality of its facilities. These three factors will help to raise its credibility, notably vis-à-vis the authorities that issue operating licences.

The Medica Group will capitalise on its high profile, improved financial strength and expertise as a leading player in the sector to take part in the future bidding system for operating licences to be introduced by the Regional Health Agencies (ARS) at regional level.

In the post-acute and psychiatric segment in France, in line with regional health policies, the Medica Group will continue to apply to open new facilities or to specialise its existing facilities to meet new needs identified in the regional medical plans (SROS) currently being revised and to adapt to the proposed reform of the post-acute and psychiatric care segment.

Pursue an active restructuring policy

In line with its quality objectives, the Medica Group intends to take measures each year to improve the quality of accommodation and restructure its facilities. These initiatives should help to maximise operating margins, particularly in the post-acute and psychiatric segment, as they generally lead to an increase in accommodation capacity and the ability to treat more severe conditions, thus boosting revenue. They will also help to enhance the appeal and thus improve the profitability of all its facilities.

Improve margins through an active sales and marketing policy

The Medica Group pursues an active sales and marketing policy based on yield management, in order to maximise revenue per bed per day.

In the long-term care segment, it will continue to develop sales and marketing tools to maximise the commercial approach taken by each facility. This approach should also help to improve its overall occupancy rate.

As regards fees, in the long-term care segment, the Medica Group will capitalise on its knowledge of the market and local competitive environment, as well as the quality of its facilities, to optimise the price positioning of its residential services and its yield management, particularly for new residents. In the post-acute and psychiatric segment, the Medica Group will seek to strengthen its ability to care for residents suffering from more severe conditions requiring more specialised care, which commands higher day rates.

The Group will also continue to develop its range of related services for residents and patients.

Pursue a targeted acquisition policy to boost its presence in densely populated, high-income areas

The Medica Group intends to pursue a targeted acquisition policy depending on market opportunities both in France and Italy. This policy will capitalise on its recognised expertise in acquisitions and integration, as well as its size, which puts it in pole position to play a leading role in the consolidation of a fragmented sector with genuine barriers to entry.

In addition to the strict profitability criteria defined by senior management, other criteria taken into account will be the level of accretion provided by the acquisition, the location of target facilities and their positioning in terms of care services, accommodation capacity and development potential.

In Italy, the Medica Group is already a major player in the long-term care segment, operating in densely populated areas which generate gross domestic product above the national average. It intends to leverage its development and successful integration experience to pursue a strategy of targeted growth.

Maintain an active real estate management policy to optimise the portfolio structure and financial flexibility

The Medica Group intends to pursue an active real estate management policy to capitalise on the close relationships forged with a diverse range of investors from the private sector (listed real estate companies), private-public sector or social housing sector, as well as the greater financial flexibility provided by its IPO.

It will continue to adopt a pragmatic approach to ownership of real estate assets with the aim of maintaining a ratio of about 30% owned outright or under finance leases, which strikes a good compromise between capital appreciation and the financial flexibility required for its future development.

Continue to pursue a highly demanding, quality-driven approach in its business activities in line with recognised ethical values

The Medica Group is highly attentive to the quality of its facilities and to the level of accommodation and care services provided, as well as the satisfaction of its residents and observance of strict ethical standards.

It will seek to promote the highest health, safety and ethical standards to consolidate its position as a key player in the long-term care segment. It has taken a proactive approach to quality certification and the development of employee training for several years now, which has put it at the forefront of best practices in this area. It will continue to pursue these policies in the future.

The Medica Group believes that this focus on quality will further enhance the appeal of its facilities and therefore contribute to their development and performance.

Retain and strengthen a first-class team of operational managers and experts

The operating and financial performance and future growth of the Medica Group depend on its ability to attract new talent and to recruit, train and retain employees with the experience and skills required by the specific features of its business sector.

It has already taken a number of initiatives, such as:

- creating university training programmes for its existing or future facility directors;
- intensive management training sessions for the facility management teams;
- creating best practices expert groups run by the Medical and Quality department; or
- pro-active management of key people identified as high-potential employees.

The Medica Group places special emphasis on training and qualifications and intends to continue investing in these value-creating initiatives to help retain and motivate its teams.

Furthermore, in addition to its two executive officer/shareholders, the Medica Group has given all senior managers and employees the opportunity to invest in the Company, principally through the Group employee share ownership plan. Almost 850 employees subscribed to the plan when it was first set up in 2008 and over 3,000 employees took up the employee share offering made concurrently with the IPO.

7.2 TARGETS

The Medica Group believes that it operates in a buoyant and resilient market, presenting robust and predictable growth in requirements, mainly due to demographic changes in the French and Italian long-term care markets.

It believes that its proven ability to implement an effective yield management policy gives it potential for solid organic growth in both long-term care facilities and post-acute and psychiatric care facilities.

In order to continue to improve its yield, the Medica Group benefits from a number of drivers that it will endeavour to implement, in particular:

- a targeted policy of redeveloping facilities with a view to improving their price positioning;
- a policy of creating value from its post-acute and psychiatric care facilities through a targeted policy of specialisation;
- adapting its long-term care tariffs according to the characteristics of local markets; and
- selling complementary services.

Thanks to the solid positioning of its network of facilities in both France and Italy, the experience of its staff and its ability to take on board regulatory changes, the Medica Group also benefits from a strong ability to obtain authorisations to create new facilities, against the backdrop of tender invitations for projects.

Lastly, thanks to its size and its experience in controlled acquisitions, the Medica Group could potentially play a key role in the consolidation of the dependency care sector. This has been reinforced by the capital increase carried out in February 2010 and the credit lines obtained in June 2010 and December 2010, giving it a very high level of financial flexibility.

The Medica Group reiterates the target set at the time of the IPO of increasing its revenues by at least 10% in 2010 and at least 45% between 2010 and 2012. It managed to beat this target in 2010, achieving growth of over 12%.

For the next few years, the Medica Group is planning to achieve its target by developing an active investment strategy, which will enable it to make the investments needed to maintain the high quality standards and profitability of its existing network, and also to implement its policy of creating new facilities and carrying out selective and controlled acquisitions. The Medica Group intends to pursue its growth strategy by further improving its net debt/EBITDA ratio to a level of around 3x by 2012.

With the backing of this strategic development plan, in February 2011, the Medica Group had identified organic growth potential of around 3,200 beds, broken down as follows:

- 900 beds under redevelopment;
- 2,300 new beds created.

To achieve these targets, the Medica Group plans to invest approximately €220 million between 2010 and 2012, depending on market opportunities.

This policy will be pursued while paying particular attention to the potential value creation of acquisitions to be carried out. The Medica Group will take a vigilant approach to selecting and reviewing the various acquisition opportunities that arise.

8. EMPLOYEE AND ENVIRONMENTAL INFORMATION

8.1 EMPLOYEE INFORMATION

8.1.1 Employees

Employees in France

With around 7,300 employees in France and 130 in Italy[15] (full-time equivalents) at 31 December 2010, the Medica Group is a leading player in the long-term care market in terms of workforce size.

At 31 December 2010, the average length of service of permanent staff in France was 5.6 years, whilst 27% of employees had been with the Group for five to nine years and 19% for over ten years.

Recruitment policy favouring professional experience

Professional experience is a key consideration in the Group's recruitment policy. At 31 December 2010, employees had an average of nine years’ previous experience in the care sector.

In order to optimise its recruitment, the Medica Group adopted the MEDI-CV web platform tool in 2008. This tool is accessible at each of its facilities and facilitates shared management of all job applications sent to the Medica Group at all of its facilities, whether online, in writing, in person or by telephone. In 2010, the Medica Group received more than 10,905 applications and selected around 3,000 CVs, including 157 nurses and 393 qualified care staff.

Employment policy based on diversity, favouring disabled and senior workers

The integration of disabled employees is integral to the values of the Medica Group, which wanted to establish an employment policy designed to encourage diversity within the company. In order to implement long-term measures and provide the best possible follow-up of these measures, the Medica Group adopted an initiative concerning the employment of disabled workers in 2007, working in partnership with a number of specialist organisations in France such as CRP, CAP Emploi, Pole Emploi, ESAT and Entreprises Adaptées.

On 1 January 2008, the Medica Group signed an agreement to reinforce this commitment with its social partners Fédération Santé Action Sociale CGT and Fédération des Services de Santé et des Services Sociaux CFDT. In 2009, the agreement was extended to include Union Nationale des Syndicats Autonomes Santé et Sociaux Public et Privé.

This agreement has had tangible results, with the number of disabled employees at the Medica Group rising by 100% from 114 people in 2007 to 230 in 2010.

The Medica Group firmly believes in the importance of employing older people in today's society, and has decided in partnership with the trade union organisations to take its commitments beyond the legal requirement. It signed an agreement concerning the

[15] Aetas has signed an agreement with the Punto Service social cooperative in Italy, which provides the operating resources required to run facilities, excluding management and administration.

employment of older workers for Medica France SA in 2009, and has rolled out a number of initiatives covering all of its subsidiaries.

The Medica Group's management and the trade union organisations decided to set a quantifiable target in terms of keeping employees aged 55 and over in employment, as well as in terms of recruiting staff aged 50 and over.

As part of this agreement, they elected to make commitments in the three areas listed below, in order to support older workers through from recruitment to retirement by offering all of the help needed for the second half of their working life:

- recruiting employees aged 50 and over;
- anticipating their career development; and
- planning for retirement and the transition between working life and retirement.

The Medica Group was awarded the Innova Prize in 2006 for its efforts to encourage the employment of older workers.

All new employees receive a warm welcome and are given an introductory handbook when they join the Group. New facility directors are also given a management guide.

The Medica Group is very attentive to employee needs and opinions. Each year, it commissions an independent firm to conduct an employee satisfaction survey. All employees receive a quarterly internal newsletter at home. Lastly, employees can find all the information they need on the Group's intranet and through Mediged, a documentary database that can be accessed at all facilities. All information is updated regularly.

Breakdown of employees in France

The table below shows a breakdown of the Group's employees (full-time equivalents) by function at 31 December 2009 and 2010[16]:

Function	**Number of employees at 31 December 2010**	**Number of employees at 31 December 2009**
Administration and logistics	919.3	836.9
Coordination and social assistants	131.0	105.3
Qualified care assistants and psychological assistants	1,742.2	1,434.3
Medical auxiliaries	101.3	98.2
Social life organisers	2,819.1	2,441.6
Kitchen staff	455.6	413.1
State-registered nurses	893.4	808.9
Doctors	121.0	110.5
Psychologists	56.3	42.8
Pharmacists	31.8	31.4
TOTAL	**7,270.9**	**6,322.8**

[16] Numbers represent full-time and part-time permanent and contract staff expressed on a full time equivalent basis at 31 December 2009 and 2010.

The table below shows a breakdown of employees (full-time equivalents) by facility type at 31 December 2009 and 2010:

Facility type	Number of employees at 31 December 2010	Number of employees at 31 December 2009
Long-term care	5,233.4	4,350.0
Post-acute and psychiatric care	1,754.1	1,705.3
Support services and facility directors	283.4	267.5
TOTAL	**7,270.9**	**6,322.8**

The table below shows a breakdown of employees by employment contract type in France at 31 December 2009 and 2010:

	Fixed-term contract	Permanent
Employees at 31 December 2010 (%)	16%	84%
Employees at 31 December 2009 (%)	15%	85%

Facility directors

Each facility is managed by a facility director, who plays a key role in the Medica Group's organisational structure. Facility directors represent the Medica Group's senior management at each facility, in particular in dealings with local regulatory authorities. They are responsible for the business development of their facility and their target is to ensure optimal occupancy rates by maintaining regular relations with families and those referring patients. They oversee the balancing of their budgets by monitoring financial indicators - optimising revenues and profit margins - and manage their staff by ensuring a good working environment.

Each year, facility directors are set a contract of objectives defining any additional remuneration that may be paid in the form of bonuses. This contract takes account of financial targets based on revenues generated by each facility and each facility's profitability in terms of EBITDAR, as well as quality-based targets such as customer satisfaction or the relevance of their quality management approach.

The role of facility support director was created in January 2008 in order to offer new graduates of the Master's programme in healthcare services or care professionals apprenticeships in the role of facility director in a real-life situation. The interest for the Medica Group lies in the creation in the medium term of a source of future "junior" facility directors. At the same time as undergoing training, the apprentices serve as deputy directors or work on secondments replacing facility directors, thereby training them in the complexities of the role.

COLLECTIVE BARGAINING AGREEMENTS AND COMPANY AGREEMENTS

The Medica Group's facilities located in France are governed by the single bargaining agreement for the private for-profit hospital sector of 18 April 2002 (Journal Officiel brochure n° 3307). This agreement annuls and replaces the five previous collective bargaining agreements: "Convalescent clinics and care homes for the elderly", "Private hospitals", "Private for-profit hospitals", "Care homes for children and adolescents" and "Follow-up care and rehabilitation

(Private facilities)"[17]. This applies to all diagnostics, care and functional rehabilitation facilities - with or without accommodation - as well as to facilities for disabled and elderly people.

The single bargaining agreement also has a long-term care annex dated 10 December 2002, containing specific requirements for long-term care facilities for elderly people, which has applied since 1 January 2003.

The single bargaining agreement contains requirements relating to union law, employment contracts and working hours - in particular breaks for shift and night workers - as well as standard wages, calculated on the basis of the reference base applied to coefficients obtained from standard classification charts. This reference base and these charts are generally renegotiated and reviewed each year within the sector.

The agreement provides for the application of a guaranteed minimum yearly wage within the post-acute and psychiatric care sector, which does not apply to the long-term care sector. Lastly, the agreement provides for compensation for employees working at nights, on Sundays and on public holidays, with their length of service taken into account in the coefficient allocated in the post-acute and psychiatric care sector, or by means of a bonus paid on top of the standard wage in the long-term care sector.

As regards personal risk insurance, the single bargaining agreement defines the levels of coverage to be applied within the framework of non-occupational sickness and business travel accidents. Employment contracts can be suspended for a maximum determined period, on top of which the employer may terminate the employment contract if it is deemed essential to replace the unwell employee, in which case the employee will be given priority in being recruited for a new job for a period of one year.

The single bargaining agreement also defines the terms for maintaining compensation in the event of incapacity and defines a death benefit and an education annuity.

In order to implement this coverage for all such employees under optimum financial conditions and offer a premium level of service, the Medica Group assigned all of these contracts to broker Dexia Prévoyance in 2010.

As regards collective bargaining agreements, the Medica Group signed an agreement with its representatives on annual pay negotiations and working conditions in 2006, 2007, 2008 and 2010. Many other agreements were also signed over the same period, including:

- an agreement on the creation of a single health and safety committee (CHSCT) in 2004, which was amended in 2006 and 2009;
- an agreement on jobs and skills forecasting and planning in 2008, including a specific section for "older workers";
- an agreement on the employment of the disabled in 2008;
- an agreement on the employment of older workers in 2009;
- a framework agreement concerning the introduction of a job classification system specific to the Medica Group in 2010.

[17] In addition, certain other agreements are still applicable, including in particular the agreement of 27 June 2000 concerning the reduction and adjustment of working hours in the private hospital sector and the social and long-term care sectors, and the amendment of 8 November 2000, as well as the agreement of 15 February 1996 concerning continuing professional education.

Employee profit-sharing

The Group's main subsidiaries have profit-sharing agreements for employees with more than three or six months service depending on the company. The profit-sharing entitlement is based on the subsidiary's net profit and takes account of the employee's length of service and level of compensation.

In 2008, the Medica Group set up an employee share ownership plan. It comprises three investment vehicles, including the Medica France Group fund, which is invested entirely in shares in Medica, the Medica Group's holding company. The other two funds are Arcancia Label Sécurité and Arcancia Label Equilibre, both of which are managed by Société Générale de Gestion (SG2). During the initial subscription period in 2008, some 850 employees purchased units in the Medica France Group fund and over 3,000 employees took up the employee share offering made concurrently with the Company's IPO in February 2010.

To the Company's knowledge, employee share ownership represented 0.11% of share capital as at 31 December 2010, within the meaning of Article 225-102 of the French Commercial Code.

No stock option or share award plans were established in 2009 and 2010.

Group works committee

On 3 July 2006, the Medica Group set up a Group Works Committee within Medica France SA, which represents the employees at Medica Group level.

The Committee's role is to foster dialogue between employee representatives and management across the entire Medica Group in France and to provide information to promote discussion and consultation. The Group Works Committee does not replace the employee representative bodies specific to each Group company, which retain their full responsibilities and powers.

8.1.2 Training and qualification of teams

Training and qualification of teams

The Medica Group places special emphasis on training and qualifications through an ongoing training programme that keeps all employees abreast of developments and changes in care practices and standards.

Professional training within the Medica Group

The performance of the Medica Group is predicated on the quality and commitment shown by its employees. That is why the Medica Group endeavours to develop the skills of its teams, thereby increasing the contribution made by each individual to the Group's qualitative and business objectives.

According to the 2010 CSA employee satisfaction survey, training is the most important motivating factor for the Medica Group's care home staff. Training has always been instrumental in retaining and motivating Medica's teams. It is a genuine management tool and source of value creation.

This training is provided by the Institut des Bonnes Pratiques and training organisations that are experts in the care sector and/or their area of intervention.

Institut des Bonnes Pratiques

The Medica Group created the Institut des Bonnes Pratiques at the beginning of 2003, a training centre dedicated exclusively to all the Medica Group's employees and a real vehicle for promoting best practice and employee development, which enhances the quality of service through various training courses.

The Institut des Bonnes Pratiques now has permanent trainers, who are primarily responsible for delivering medical and ethical courses at facilities, such as support for the elderly in the final stages of their life, the fundamentals of gerontology, the prevention of the risk of abuse, family/team relationships and stress management.

Around 2,600 employees were trained by the Institut des Bonnes Pratiques in 2010, equal to approximately 36% of the Medica Group's workforce.

Training partnerships

With an ongoing view to developing the skills of its staff, as well as encouraging the sharing and contribution of new concepts, the Medica Group also uses the services of training organisations and schools that are experts in their chosen field, such as a law firm for training in the responsibility of facility directors, France Alzheimer for specific training for care staff, HEC and Bureau Veritas for electrical qualifications.

In 2010, the Medica Group began to roll out training based on the Montessori method adapted to disoriented people at its retirement homes. The Montessori method, which is traditionally used with young children, has been adapted for people suffering from Alzheimer's or related disorders. Based on expertise derived from neuroscience, this method focuses on non-verbal, sensory and motor communication. It is widely used in the United States and 17 countries around the world, but still not very well known in France. In order to ensure ongoing improvement in the quality of life of its disoriented residents and maintain their independence, the Medica Group has taken an interest in the Montessori method and wanted to test out its benefits in order to obtain a better definition of the plan. The care staff at four of the Group's long-term care facilities underwent this specific training in 2010, provided by AG&D, an accredited training organisation in France. Following the initial very positive results obtained with residents, their families and care staff, the Medica Group is now rolling out this training programme across the Group between now and 2013.

Courses leading to the award of diplomas

The goal of providing high-quality care for customers, while facilitating the internal development of staff, has prompted the Medica Group to forge specific partnerships in order to help its teams gain qualifications. In 2010, 422 employees underwent a training courses leading to the award of diplomas.

A number of specialised, novel courses leading to the award of diplomas are now offered to staff:

Facility directors

A degree and master's degree course in facility management have been designed and organised in conjunction with the Université de Paris XII and the Institut National de la Formation et d'Application to oversee the training of all Medica's facility directors.

These degree courses began in January 2005 with the aim of training future directors of the Group's long-term care facilities. In 2006, they were opened to all external candidates with two years' post-secondary school education or equivalent work experience. A team of trainers comprising university staff, Medica Group executives and external advisers (lawyers, consultants, etc.) aims to provide current and future facility directors with additional expertise for improved performance.

- State diploma for care assistants specialising in Alzheimer's disease

The Medica Group worked on this project with the Institut National de Formation et d'Application (Université Paris XII) and the France Alzheimer association, which is an expert in the field. Its main aim is to help its care teams specialise whilst at the same time obtaining a state-recognised diploma that will enhance the care they can offer to disoriented elderly residents. At 31 December 2010, around 70 of the Medica Group's employees had undergone this training.

Certain initiatives are also favoured such as apprenticeship schemes, for which partnerships exist, in particular as regards the state diploma for care assistants specialising in Alzheimer's disease. Other initiatives are under review as part of the Medica Group's employment policy, primarily by means of various commitments concerning the employment of disabled or older workers.

8.2 ENVIRONMENTAL INFORMATION

8.2.1 Medica's commitment to sustainable development and energy efficiency at its facilities

As part of its risk management strategy, the Medica Group endeavours to comply with environmental regulations applicable to all of its facilities and minimise the impact of its activities on the environment.

Medica has implemented a number of initiatives concerning sustainable development and protecting the environment. A working party formed in July 2007 has initiated a variety of projects concerning water, electricity, gas and fuel consumption, waste management (ink cartridges, batteries, light bulbs etc.) and carbon dioxide emissions from the car fleet.

Managing the impact of the Medica Group's activities on the environment forms an integral part of the resources and procedures implemented by the Group at all of its facilities as part of its quality management approach and risk management policy.

8.2.2 The Medica Group's main achievements

- There have been a number of **ecological building and renovation** initiatives at the Medica Group. The Saint Martin de Crau facility opened in 2010 generates hot water from **solar panels**.
- Four facilities use **geothermal heat pumps**: Les Lilas, Villars-Les-Dombes, Tarbes and La Baule. The Claude Bernard facility in Oullins benefits from external wall insulation, which helps to avoid thermal bridges that can cause energy loss.
- In 2008, a "En vert et avec tous" section on environmental issues has been included in ECHANGES, the internal quarterly newsletter to **raise employees' awareness** of local and national initiatives.
- **The Group has belonged to C2DS** (Comité pour le Développement Durable en Santé) since 2010. This committee, created three years ago under the patronage of the French Ministry of Health and the Ministry of Sustainable Development, comprises over 200

healthcare professionals and all parties involved in the hospital sector, with a view to creating a sustainable and solidarity-based approach to care services.

- **Limiting water consumption**: Use of bottled water has been stopped at all facilities and water fountains have been installed as of 2008 in the dining rooms and on each floor during 2010. This has helped to reduce the volume of plastic waste significantly.
- **Limiting paper consumption**: At the end of 2010, the Group started using 70 gr paper instead of 80 gr paper.
- A number of **energy efficiency assessments** have been carried out at the Group's facilities.

In 2010, the Medica Group did not book any provisions or provide any guarantees relating to environmental risks and did not pay out any compensation in connection with such.

9. STATUTORY FINANCIAL STATEMENTS OF MEDICA S.A., PARENT COMPANY

9.1 MEDICA S.A. — STATUTORY FINANCIAL STATEMENTS

MEDICA S.A.		(In millions of euros)
Item	**2010**	**2009**
Revenue	1.4	1.2
Operating profit	-2.9	-0.3
Profit/(loss) before tax	-10.7	-38.2
Net profit/(loss)	-5.1	-26.0
Equity	524.6	19.5

Revenue

Revenue derives from the re-billing of routine operating costs incurred by Medica S.A. as the operational holding company, and from a technical assistance agreement entered into by Medica S.A. and Medica France S.A. on 9 August 2006.

The administrative and operational support provided by Medica S.A. includes strategy setting, business development coordination, communications, key accounting and financial guidelines, banking relations, marketing development, acquisitions, business management and coordinating the recruitment of key personnel.

Operating expenses

Operating expenses mainly cover costs incurred in implementing the assistance agreement, including executive compensation, auditors' fees and technical fees, as well as costs incurred within the framework of the IPO and negotiations relating to the club deal.

Finance costs

At the time of its IPO on Euronext Paris in February 2010, Medica proceeded with a bond conversion to repay its mezzanine debt in full and part of the syndicated loan. On 16 June 2010, Medica took out a new €350 million loan, allowing it to refinance its existing loans. This had a positive impact on finance costs, which decreased from €37.8 million in 2009 to €7.8 million in 2010.

Income tax

Medica S.A. and its subsidiaries elected for group tax relief on 1 January 2007. As the head of the tax group, Medica S.A. pays the annual tax due by all tax group entities in accordance with Article 223 A and 223 L, 6-d of the French General Tax Code. The tax group includes all companies which fall within the scope of consolidation of the parent company SFM, as well as other Group companies that are eligible for group tax relief.

Election for group tax relief must not advantage or disadvantage the subsidiaries and the agreements have been drawn up in such a way that each subsidiary is in the same position as if it were taxed separately.

Consequently, any resulting tax savings are not allocated to members of the tax group. Given the Group's losses and the non-reallocation of tax savings, Medica SA recognised a tax benefit of €16.9 million in 2010.

Equity

On 24 January 2011, the Board of Directors decided on the principle of several capital increases, in parallel with the conversion of convertible bonds into shares, as part of Medica's IPO. This was carried out on 10 February 2010, resulting in an increase in equity from €20 million at the end of 2009 to €525 million at the end of 2010.

9.2 Breakdown of trade payables by maturity

As required under articles L. 441-6-1 and D. 441-4 of the French Commercial Code, the following table shows a breakdown of Medica S.A.'s trade payables by maturity.

Trade payables (In millions of euros)	Total trade payables at 31/12/2010	No maturity	Past due at the year end	Total not yet due	o/w due in less than 30 days	o/w due between 30 and 60 days	o/w due in more than 60 days
Operating trade payables	0.23	-	-	0.23	0.13	0.10	-
Total trade payables	**0.23**	**-**	**-**	**0.23**	**0.13**	**0.10**	**-**
Invoices not yet received	**0.41**	**0.41**	**-**	**-**	**-**	**-**	**-**
TOTAL TRADE PAYABLES AT 31/12/2010	**0.65**	**0.41**	**-**	**0.23**	**0.13**	**0.10**	**-**
Total trade payables at 31/12/2009	**3.40**	**2.20**	**-**	**1.20**	**0.50**	**0.05**	**0.65**

9.3 Proposed appropriation of Medica S.A.'s net earnings

We invite you to approve the statutory financial statements (balance sheet, income statements and notes) as presented, showing a loss of €5,075,286.

We propose to appropriate the net loss for the year as follows:

Loss for the year: €5,075,286

Deducted from "Issue, merger and contribution premium" in the sum of €5,075,286

Having noted the lack of retained earnings and considering that no dividends were paid during the last three years, it is also proposed to the annual general meeting that a dividend of €0.10

per share be paid, representing a total of €4,790,418.70, deducted from "Issue, merger and contribution premium".

In terms of taxation in France, this dividend does not constitute distributed income within the meaning of Article 112 of the French General Tax Code but shall be regarded as a repayment of contribution or issue premiums within the meaning of Article 112-1 of the French General Tax Code.

9.4 Non tax-deductible expenses

As required under the provisions of Articles 223-4 and 223-5 of the French General Tax Code, we advise you that the Medica Group's 2010 statutory and consolidated financial statements do not include any non tax-deductible expenses.

9.5 Research and development activity

Medica and the subsidiaries of the Medica Group did not engage in any research and development activities during 2010.

9.6 Main operating subsidiary: Medica France S.A.

Medica France S.A.		**In millions of euros**
Item	**2010**	**2009**
Revenue	294.3	273.6
Operating profit	23.7	26.6
Profit/(loss) before tax	37.0	17.9
Net profit/(loss)	29.6	9.2
Equity	151.1	120.8

Revenue

Revenue amounted to €294.3 million in 2010 compared with €273.6 million in 2009, an increase of 7.56%.

The growth stemmed from:

- an increase in the occupancy rate with the opening of new facilities in 2010, as well as the ramp-up in 2010 of facilities opened in 2009, in particular the new Issigeac and Castéra Verduzan facilities;
- an increase in average fees, particularly for long-term care facilities.

Operating profit

Operating profit amounted to €23.7 million compared with €26.6 million the previous year, a fall of around 11%.

Profit/(loss) before tax

After net finance costs of €13.1 million (€8.9 million in 2009), profit before tax came to €37.0 million compared with €17.9 million the previous year. This significant improvement in net finance costs relates primarily to the increase in dividends received from subsidiaries, amounting to €16.6 million in 2010 (compared with €4.9 million in 2009), as well as the reversal of net provisions for shares in non-trading real estate companies (SCIs) in the amount of €6.5 million (compared with a net charge to provisions of €4.7 million in 2009).

Net profit/(loss)

After a net exceptional expense of €0.04 million (€1.4 million in 2009), employee profit-sharing of €1.1 million (€1.4million in 2009) and income tax of €6.2 million (€5.9 million in 2009), net profit for the year amounted to €29.6 million compared with €9.2 million in 2009.

9.7 EQUITY INTERESTS HELD BY THE MEDICA GROUP (ART. L.233-6-1 OF THE FRENCH COMMERCIAL CODE)

Date of acquisition	Company	Business activity	% interest acquired during the year	Total % interest at the year end
First half 2010	SSR Montfavet	Real estate	32.70	32.70
	Fontaine Bazeille	No business activity	100	100
	Bazeille Développement	Construction-sale company	100	100
	Médience	Holding company	100	100
	Résid'Gest	No business activity	100	100
	Les Parentèles de Paris 20ème	Long-term care	70	100
	Les Parentèles du Val d'Oise	Long-term care	70	100
	Les Parentèles de Maurepas	Long-term care	70	100
	Les Parentèles de Bagneux	Long-term care	70	100
Second half 2010	Le Mont Soleil	No business activity	100	100
	JPC Consultant	Holding company	100	100
	Résidence Claude Debussy	Long-term care	100	100
	Pré de la Ganne	No business activity	100	100
	Domaine des Trois Chemins	Long-term care	100	100

	Les Trois Chemins	Real estate	100	100
	Les Oliviers	Long-term care	100	100
	146-148 Michel Jourdan	Real estate	65.89	65.89
	Médivalys	No business activity	100	100
	Actiretraire Soulaines	No business activity	100	100

9.8 Statutory Auditors

Statutory Auditors

Constantin Associés
Member of Deloitte Touche Tohmatsu
185 avenue Charles de Gaulle BP 136
92,524 Neuilly-sur-Seine

Appointed under the Articles of Association on 9 August 2006, until 31 December 2012
(Compagnie Régionale des Commissaires aux Comptes de Versailles)

Patrick Grimaud
17 rue du Sergent Bauchat
75012 Paris

Appointed under the Articles of Association, renewed on 27 June 2005, until 31 December 2010
(Compagnie Régionale des Commissaires aux Comptes de Paris)

Cabinet Mazars
61 rue Henri Regnault
92400 Courbevoie,

Appointed by the annual general meeting of 29 June 2010, until 31 December 2015.
(Compagnie Régionale des Commissaires aux Comptes de Versailles)

Alternate Statutory Auditors

Jean Lebit
18 avenue du 8 mai 1945
95200 Sarcelles

Appointed under the Articles of Association on 9 August 2006, until 31 December 2012
(Compagnie Régionale des Commissaires aux Comptes de Versailles)

Jean-Luc BESSON
17 rue du Sergent Bauchat
75012 Paris

Appointed under the Articles of Association, renewed on 27 June 2005, until 31 December 2010
(Compagnie Régionale des Commissaires aux Comptes de Paris)

Cyrille Brouard
61 rue Henri Regnault
92400 Courbevoie

Appointed by the annual general meeting of 29 June 2010, until 31 December 2015.
(Compagnie Régionale des Commissaires aux Comptes de Versailles)

10. OTHER INFORMATION

10.1 RELATED-PARTY AGREEMENTS AND COMMITMENTS GOVERNED BY ARTICLE L.225-1 OF THE FRENCH COMMERCIAL CODE

The Statutory Auditors have been advised of the related-party agreements and commitments governed by Article L. 225-38 of the French Commercial Code authorised by the Board of Directors during 2010.

A list and the purpose of agreements entered into on an arm's length basis has been sent to the Directors and the Statutory Auditors.

10.2 FIVE-YEAR FINANCIAL HIGHLIGHTS

In accordance with the provisions of Article R. 225-102 of the French Commercial Code, the table below shows the Company's five-year financial highlights.

Period **Duration of the financial year**	**31/12/2010** **12 months**	**31/12/2009** **12 months**	**31/12/2008** **12 months**	**31/12/2007** **20 months**	**30/04/2006** **4 months**
Financial situation at FY end	18,653,467	11,348,478	116,576,640	116,576,640	44,640
Number of shares	47,904,187	7,286,040	7,286,040	7,286,040	2,790
NET INCOME FROM COMPLETED TRANSACTIONS					
Net revenue	1,407,683	1,191,140	1,330,001	1,749,114	
Profit / (loss) before tax, profit sharing, amortisation and provisions	(12,079,917)	(38,117,826)	(35,857,205)	(59,196,756)	(3,113)
Income tax	(10,851,250)	(14,362,132)	(12,055,092)	(9,890,225)	
Depreciation and amortisation	3,846,619	2,218,213	208,155	5,089,170	609
Net profit/(loss)	(5,075,286)	(25,973,906)	(24,010,268)	(54,395,701)	(3,722)
EARNINGS PER SHARE					
Profit / (loss) after tax, profit sharing but before amortisation and provisions	(0.03)	(3.26)	(3.27)	(6.77)	(1.12)
Profit / (loss) after tax, profit sharing, amortisation and provisions	(0.11)	(3.56)	(3.30)	(7.47)	(1.33)

PERSONNEL					
Average number of employees	2	2	2	2	
Total Payroll	696,606	590,495	590,495	957,462	
Sums paid in the form of employee benefits	253,465	227,320	224,355	371,346	

ISSY LES MOULINEAUX
28 March 2011,

The Board of Directors

Financial information concerning the group's assets and liabilities, financial position and profits and losses

1. Consolidated financial statements for the Medica Group for the year ended 31 December 2010 and related Statutory Auditors' Report

CONSOLIDATED INCOME STATEMENT

In thousands of euros	Notes	2010	2009	2008
Revenue		**538,879**	**480,727**	**448,814**
Purchases used in the business		(25,638)	(22,783)	(20,445)
External charges	4.20	(143,448)	(129,203)	(121,577)
Income and other taxes		(28,528)	(30,295)	(27,650)
Employee benefits expenses	4.21	(246,812)	(214,009)	(201,790)
Other operating expense	4.22	(1,275)	(596)	(579)
Other operating income	4.22	1,773	774	1,567
EBITDA		**94,950**	**84,615**	**78,341**
Amortisation and depreciation expense	4.23	(21,998)	(18,830)	(17,227)
Impairment losses and provisions	4.23	(1,742)	(1,698)	(530)
EBIT		**71,210**	**64,087**	**60,583**
Gains/(loss) on disposal of available-for-sale financial assets		0	8	-
Non-recurring operating expense	4.24	(32,551)	(19,643)	(3,205)
Non-recurring operating income	4.24	30,200	13,312	297
Operating profit		**68,859**	**57,764**	**57,676**
Finance costs		(33,335)	(81,300)	(94,716)
Financial income		131	624	4,814
Net finance costs	4.25	**(33,204)**	**(80,676)**	**(89,902)**
Profit/(loss) before tax		**35,655**	**(22,912)**	**(32,226)**
Income tax benefit/(expense)	4.26	(11,595)	10,365	9,980
Net profit/(loss) after tax		**24,060**	**(12,546)**	**(22,246)**
Profit/(loss) from associates		(509)	(423)	(144)
Net profit/(loss)		**23,551**	**(12,969)**	**(22,390)**
Attributable to equity holders of the parent	4.27	23,233	(13,363)	(22,688)
Attributable to minority interests		319	394	297
Average number of shares outstanding	4.27	43,218,304	7,286,040	7,286,040
Basic profit / (loss) loss per share (€)	4.27	0.54	(1.83)	(3.11)
Diluted profit / (loss) per share (€)	4.27	0.57	(0.50)	(0.85)

Statement of Comprehensive Income

In thousands of euros	2010	2009	2008
Net profit/(loss)	**23,551**	**(12,969)**	**(22,390)**
Other comprehensive income:			
Change in fair value of financial instruments	3,964	(4,172)	
Deferred tax on fair value of financial instruments	(1,321)	1,391	
Total gains and losses recognised directly in equity	2,643	(2,781)	0
Comprehensive income / (loss)	**26,194**	**(15,750)**	**(22,390)**
Attributable to equity holders of the parent	25,875	(16,144)	(22,688)
Attributable to minority interests	319	394	297

STATEMENT OF FINANCIAL POSITION

In thousands of euros	Notes	2010	2009	2008
ASSETS				
Goodwill	4.1	367,411	353,122	349,836
Intangible assets	4.2	557,677	483,059	482,519
Property, plant and equipment	4.4	334,286	294,325	294,951
Shares in associates		2,149	-	131
Other financial assets	4.6	19,343	17,389	14,478
Available-for-sale assets		1,346	1,718	1,697
Deferred tax assets	4.26	361	1,141	561
Derivative financial instruments	4.9	1,786	1,054	-
Total non-current assets		**1,284,359**	**1,151,808**	**1,144,173**
Inventories and work-in-progress		2,081	1,915	1,624
Trade receivables	4.7	35,293	29,927	35,948
Tax assets	4.8	1,670	1,631	1,864
Other receivables	4.7	16,754	12,728	12,967
Other current assets	4.7	4,528	6,725	8,797
Cash and cash equivalents	4.10	142,340	38,546	23,974
Total current assets		**202,666**	**91,472**	**85,174**
Total non-current assets and disposal groups held for sale	4.11		11,244	
Total assets		**1,487,026**	**1,254,524**	**1,229,347**
LIABILITIES AND EQUITY				
Share capital	4.12	18,653	11,348	116,577
Additional paid-in capital		500,719	0	0
Treasury shares		(1,470)		
Other reserves		0	0	0
Net profit/(loss) attributable to equity holders of the parent		23,233	(13,363)	(22,688)
Consolidated retained earnings		63,813	124,266	44,507
Equity attributable to equity holders of the parent		**604,948**	**122,252**	**138,397**
Profit attributable to minority interests		319	394	297
Retained earnings attributable to minority interests		4,677	2,921	5,829
Total equity		**609,944**	**125,567**	**144,521**
Long-term debt	4.16	479,975	393,621	721,146
Employee benefit obligations	4.13	5,473	4,674	4,308
Liabilities related to associates with negative net worth		950	292	0
Other provisions	4.14	7,213	8,534	8,619
Deferred tax liabilities	4.26	189,838	191,540	204,141
Derivative financial instruments	4.9		18,889	
Other non-current liabilities	4.15	23,608	23,061	30,355
Total non-current liabilities		**707,058**	**640,612**	**968,570**
Short-term debt	4.16	27,366	393,531	16,977
Employee benefit obligations	4.13	1,169	987	746
Trade payables	4.17	42,839	36,607	36,993
Other payables	4.17	91,354	56,145	46,029
Derivative financial instruments	4.9	4,673	0	14,165
Current taxes	4.18	2,624	1,075	1,346
Total current liabilities		**170,025**	**488,345**	**116,256**
Total liabilities on non-current assets and disposal groups held-for-sale				
Total liabilities and equity		**1,487,026**	**1,254,524**	**1,229,347**

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros	Notes	2010	2009	2008
Consolidated net profit/(loss)		23,551	(12,969)	(22,391)
Adjustment for profit or losses from associates		509	423	144
Adjustments for depreciation, amortisation, impairment losses and provisions	4.23	18,158	18,486	18,712
Adjustments for fair value		(5,244)	(394)	25,501
Adjustments for gains or losses on disposal and dilution		(3,510)	1,098	(129)
Adjustments for dividend income		(5)		
Cash flow after cost of net debt and tax		**33,458**	**6,643**	**21,837**
Adjustments for security acquisition costs		1,625	0	0
Adjustment for IPO costs		2,175	0	0
Adjustments for tax expense/(benefit)	4.26	11,595	(10,365)	(9,980)
Adjustments for net finance costs	4.31	36,513	80,449	67,120
Cash flow before interest and tax		**85,367**	**76,727**	**78,978**
Change in working capital	4.31	18,771	14,483	14,633
Income tax paid		(4,858)	(1,370)	5,954
Net cash from operating activities		**99,280**	**89,840**	**99,565**
Impact of changes in the scope of consolidation	6.2	(59,253)	(9,451)	(42,208)
Increase in property, plant and equipment	4.31	(41,445)	(33,836)	(38,372)
Increase in intangible assets	4.31	(1,975)	(1,260)	(5,788)
Increase in financial assets		(350)	(21)	(52)
(Increase)/decrease in loans and advances		(1,049)	(3,063)	137
Proceeds from disposals of property, plant and equipment and intangible assets		22,747	12,392	297
Dividends income		5	0	0
Net cash used in investing activities		**(81,319)**	**(35,239)**	**(85,986)**
Capital increase		255,133	0	0
Treasury shares		(1,496)	0	0
Issuance of debt	4.31	484,770	11,398	47,476
Repayment of debt	4.31	(607,973)	(15,146)	(20,835)
Net interest paid		(46,941)	(37,974)	(42,583)
Repayment of derivative financial instruments		(5,739)	0	0
Dividends paid to minority shareholders of subsidiaries		(97)	(112)	(153)
Net cash from / used in financing activities		**77,658**	**(41,834)**	**(16,095)**
Net increase/(decrease) in cash and cash equivalents		**95,619**	**12,767**	**(2,516)**
Cash and cash equivalents at beginning of year		34,403	21,636	24,152
Cash and cash equivalents at end of year	4.10	130,022	34,403	21,636
Net increase/(decrease) in cash and cash equivalents		**95,619**	**12,767**	**(2,516)**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

In thousands of euros	Number of shares	Share capital	Additional paid-in capital	Consolidated reserves	Consolidated profit/(loss)	TOTAL	Attributable to: Equity holders of the parent	Minority interests
Equity at 31/12/2008	**7,286,040**	**116,577**	**0**	**50,337**	**(22,390)**	**144,521**	**138,397**	**6,126**
Appropriation of net profit/(loss) for the previous period				**(22,390)**	**22,390**	**0**	**0**	**0**
Capital increase, reduction		**(105,228)**		**105,228**		**0**		**0**
Change in scope				**(3,092)**		**(3,092)**		**(3,092)**
Dividends paid				(113)		(113)	0	(113)
Transactions with owners		**0**	**0**	**(113)**	**0**	**(113)**	**0**	**(113)**
Net profit for the period					(12,969)	(12,969)	(13,363)	394
Total gains and losses recognised directly in equity				(2,781)		(2,781)	(2,781)	
Comprehensive income		**0**	**0**	**(2,781)**	**(12,969)**	**(15,750)**	**(16,144)**	**394**
Equity at 31/12/2009	**7,286,040**	**11,348**	**0**	**127,189**	**(12,969)**	**125,567**	**122,252**	**3,315**

In thousands of euros	Notes	Number of shares	Share capital	Additional paid-in capital	Consolidated reserves	Consolidated profit/(loss)	TOTAL	Attributable to: Equity holders of the parent	Minority interests
Equity at 31/12/2009		7,286,040	11,348	0	127,188	(12,969)	125,567	122,252	3,315
Appropriation of net profit/(loss) for the previous period					(12,969)	12,969	0	0	0
Capital increase	1	40,618,147	8,252	267,228			275,480	275,480	0
Change in scope					1,458		1,458	0	1,458
Dividends paid					(97)		(97)		(97)
Conversion of preferred shares	1		(5,827)	5,827			0		
Conversion of convertible bonds	1		4,880	239,779			244,659	244,659	
Cost of issuing equity instruments	1			(12,115)	0		(12,115)	(12,115)	
Treasury shares					(1,470)		(1,470)	(1,470)	
Equity component of bond issue	1				(49,734)		(49,734)	(49,734)	
Transactions with owners			(947)	233,491	(51,300)	0	181,243	181,340	(97)
Comprehensive income					2,643	23,551	26,194	25,876	319
Equity at 31/12/2010		47,904,187	18,653	500,719	67,020	23,551	609,944	604,948	4,996

(*) Cash flow hedge (interest rate swap)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Medica SA ("the Company") and its subsidiaries ("the Medica group") operate long-term care facilities and short-term medical care facilities for people of all ages.

The group operates in France and in Italy, in two business segments:

- **Long-term care in France and Italy**, comprising nursing and residential care homes for the elderly; and
- **Post-acute and psychiatric care**, comprising short-term post-operative and rehabilitation care, as well as psychiatric services.

Medica SA is the holding company of the Medica group, a French company with its registered office at 39, rue du Gouverneur Félix Eboué, Issy les Moulineaux.

These consolidated financial statements were approved by the Board of Directors on 28 March 2011.

1. SIGNIFICANT EVENTS OF THE YEAR

- ***Development of the Group's operations***

In France, the Medica Group acquired some 750 operational long-term care beds, including:

- a group based mainly in the Languedoc Roussillon region;
- a group based in the Paris region specialising in Alzheimer's and similar sufferers;
- four care facilities (Paris region, Bouches du Rhône, Vienne and Alpes Maritimes départements).

In Italy, the Medica Group acquired more than 600 beds, mainly in Lombardy.

The Group also opened more than 400 new long-term care beds and completed the redevelopment of approximately 150 post-acute and psychiatric care beds.

At 31 December 2010, therefore, the Group operated a total of 13,185 beds, an increase of 1,804 over the year.

- ***Capital increase and IPO***

On 24 January 2010, using the authorisation granted at the shareholders meeting of even date, the Board of Directors agreed on the following proposals:

- To increase the share capital by a maximum of €6,084,219 through an initial public offering for cash of up to 15,625,000 new shares with a par value of €0.38939, without pre-emptive rights;
- To increase the share capital by a maximum of €610,630 through a private placement restricted to Predica and the independent directors of the Company;
- To increase the share capital by a maximum of €12,168 through an employee share offering to members of the Group employee savings plan.

On 25 January 2010, the Autorité des Marchés Financiers (AMF) stamped the prospectus prepared by Medica for the public offering on Euronext Paris, under visa no. 10-015.

The final terms and conditions of the various offerings were set by the Board of Directors on 9 February 2010. The price was set by the Board at €13 per share.

All the shares of the Company were admitted for trading on compartment B of Euronext Paris on 10 February 2010 for settlement and delivery on 12 February 2010

- ***Restructuring of the syndicated loan***

Following the public offering of shares on Euronext Paris, the Medica Group repaid the mezzanine debt in full and partially repaid the tranche C debt.

On 16 June 2010, the Medica Group obtained a new five-year credit facility with the customary guarantees, including a €350 million term loan facility and €100 million revolving loan facility.

- ***Sale and lease back arrangement***

On 17 December 2010, the Medica Group entered into a sale and lease back arrangement for some of its property assets consisting of new finance lease agreements with the following key characteristics:

Amount: €130 million

Term: 12 years

The arrangement covers 19 facilities with approximately 1,400 beds.

2. Accounting policies

2.1 Basis of preparation

2.1.1 Basis of preparation of the financial statements

As required by European Council regulation no. 1606/2002 of 19 July 2002, the consolidated financial statements of the Medica Group have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The consolidated financial statements have been prepared using the historic cost convention, with the exception of certain categories of assets and liabilities measured in accordance with IFRS rules, particularly financial assets and liabilities and derivative financial instruments.

2.1.2 New standards and interpretations adopted

The accounting principles used to prepare the consolidated financial statements are the same as those used to prepare the 2009 consolidated financial statements with the exception of those new standards and interpretations which are mandatory for periods beginning on or after 1 January 2010:

Standard	Title	Date of application
IFRIC 12	Service Concession Arrangements	29/03/2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	01/07/2009
IFRIC 18	Transfers of Assets from Customers	31/10/2009
IFRIC 17	Distributions of Non-cash Assets to Owners	31/10/2009
IFRIC 15	Agreements for the Construction of Real Estate	01/01/2010
IFRS 3 Revised	Business Combinations (phase 2)	01/07/2009
Amendment to IAS 27	Consolidated and Separate Financial Statements	01/07/2009
Amendment to IAS 39	Financial instruments: Recognition and Measurement – Eligible Hedged Items	01/07/2009
Amendment to IFRS 5	Annual Improvements May 2008	01/07/2009
Amendment to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17 and IAS 36	Annual Improvements April 2009	01/07/2009 (at the earliest)
Amendments to IFRS 2	Group Cash-settled Share-based Payment Transactions	01/01/2010

None of these standards had any impact or material impact on the Group, with the exception of IFRS 3 Revised, the impact of which has been described in the note on business combinations.

2.1.2 Standards and interpretations published but not yet mandatory

The Medica Group has not early adopted the following standards, amendments or interpretations which have already been published by the IASB but have not yet been endorsed by the European Union or have been endorsed but were not yet mandatory at 31 December 2010.

- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments;
- IAS 32 (Amendment): Classification of Rights Issues
- IAS 24 Revised: Related Party Disclosures
- IFRS 9: Financial Instruments
- Amendment to IFRIC 14: Prepayments of a Minimum Funding Requirement
- IFRS 8: amendment pursuant to IAS 24 Revised;
- Amendment to IAS 12: Deferred tax – Recovery of Underlying Assets
- Annual Improvements May 2010

The Medica Group is currently analysing these new standards and interpretations but does not expect their adoption to have any significant impact on the consolidated financial statements.

2.2 Use of estimates and assumptions

The preparation of financial statements implies that the group's management carries out estimates and uses certain assumptions which have an impact on the carrying amounts of certain assets and liabilities, income and expenses together with the data provided in the notes.

The group's management revises these estimates and assumptions on a regular basis in order to ensure their relevance with respect to past experience and the current economic context. Depending on the change in these assumptions, items in future financial statements may be different from current estimates. The impact of changes in accounting estimates is recognised in the period of the change and all future periods affected.

Furthermore, in addition to the use of estimates, management uses its discretion to determine the appropriate accounting treatment for certain transactions, pending the clarification of certain IFRS standards or when the applicable standards do not deal with the relevant issues.

The main estimates made by management in preparing the financial statements involve the measurement of assets, particularly operating permits, impairment testing and assumptions used to calculate the Group's employee benefit obligation.

2.3 Consolidation principles and methods

2.3.1 Consolidation method

Subsidiaries refer to all the entities for which the group has the power to control their financial and operational policies, a power that is generally accompanied by the holding of more than half of the voting rights. Potential voting rights are taken into account during the assessment of the control exerted by the group on another entity when they derive from instruments likely to be exerted or converted at the time of this evaluation. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date on which control is no longer exerted.

Subsidiaries over which the Medica group has significant influence are accounted for under the equity method.

The Group has no special purpose entities.

2.3.2 Intragroup transactions

Intragroup transactions, balances and unrealised gains and losses resulting from transactions between group companies are eliminated. The subsidiaries use the same accounting methods as the group.

2.3.3 Transactions with minority interests

Minority interests correspond to the proportionate share of the Group's profit or loss and net assets attributable to outside shareholders. They are presented in the income statement on a separate line item and in the consolidated balance sheet within equity, separately from the equity attributable to owners of the parent. Losses are attributed to the owners of the parent and minority interests according to their respective interest in the relevant entities.

The scope of consolidation is presented in note 6-3 – Scope of consolidation.

2.3.4 Translation of foreign currency-denominated transactions

Functional currency and reporting currency for financial statements

The data included in the financial statements of each of the group's entities is measured by using the currency of the principal economic environment in which the entity carries out its activities (the "functional currency"). The consolidated financial statements are reported in euros, which is the functional and reporting currency of the group.

Transactions and balances

The group has no transactions denominated in foreign currency.

2.4 Business combinations and goodwill

IFRS 3R, which has been applied by the Group since 1 January 2010, has introduced some changes to the acquisition method of accounting for business combinations, the main impacts of which during the period were:

- Recognition of acquisition-related expenses in profit or loss for the period;
- As regards consolidation of the companies in which the Group previously held a 30% interest:
  - remeasurement of the previously held 30% interest at its acquisition-date fair value, giving rise to the recognition of a capital gain in profit or loss under non-recurring operating income;
  - acquisition and consolidation of 100% of the companies from 1 January 2010.

Business combinations are accounted for using the acquisition method.

Initial goodwill is equal to the excess of the cost of an acquisition plus any minority interests and the fair value of the previously held interest over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

On the date on which control is obtained, any previously held interest is remeasured at its fair value and the resulting gain or loss recognised in profit or loss, in accordance with IFRS 3R.

Minority interests may on the acquisition date, be measured either at their fair value or at their proportionate share of the acquiree's identifiable net assets. The option is available on a transaction by transaction basis.

Subsequent acquisitions of minority interests are then recognised in equity.

Acquisition-related costs are recognised in profit or loss for the period.

After initial recognition, goodwill is subsequently measured at cost less accumulated impairment.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the groups of cash generating units (operating segment) that are expected to benefit from the synergies of the business combination.

2.4.1 Goodwill

Goodwill is the difference between the consideration transferred for an acquisition and the acquisition-date fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill arising on the acquisition of subsidiaries is recognised in intangible assets and is not amortised. The Group has a period of twelve months from the acquisition date to finalise the fair value measurement of assets and liabilities acquired. After this measurement period, any adjustments are recognised directly in profit or loss.

Goodwill is allocated to the groups of cash-generating units expected to benefit from the business combination which gave rise to the goodwill. The Medica group carries out goodwill impairment tests for each operating segment whenever there is objective evidence of impairment, and at least once a year. Impairment of goodwill is irreversible.

2.4.2 Negative goodwill

When the cost of an acquisition is lower than the fair value of the Group's share of the acquiree's net assets, the difference is recognised directly in profit or loss under non-recurring operating income, after duly identifying and measuring the various items included in the calculation.

2.5 Intangible assets

2.5.1 Operating permits

In France, the operation of long-term care facilities and follow-up care centres is subject to permits which must be requested from the authorities for both the set-up and extension of the facilities. Permits are granted for 15 years for long-term care facilities and for 5 years for post-acute and psychiatric facilities.

Compliance with the operational conditions imposed by the supervisory authorities is checked through compliance visits. If the group complies with these conditions, operating permits are not withdrawn, which means that they have an indefinite life for accounting purposes. Operating procedures in Italy are similar. As a result, operating permits are not amortised, and undergo impairment testing whenever there is objective evidence of impairment, and at least once a year.

Only administrative permits acquired either directly or through a business combination are recognised in intangible assets. These permits are measured when they are acquired, based on a multiple of revenue. Where the administrative permits are obtained by the group through its own efforts, they correspond to intangible assets generated internally which do not meet the recognition criteria set out in paragraph 58 of IAS 38 (Intangible assets).

2.5.2 Software

Costs linked to the acquisition of software licences are registered under assets on the basis of the costs incurred to acquire and set up the relevant software. These costs are amortised over the estimated useful life of the software (between three and five years).

Software development costs are capitalised and costs related to keeping software in operational condition are recorded as expenses when they are incurred.

2.6 Property, plant and equipment

Property, plant and equipment mainly comprise:

- land and buildings, mainly long-term care facilities and post-acute and psychiatric facilities;
- equipment required to run facilities.

All property, plant and equipment are recorded at their historic cost. Historic cost comprises all the costs directly attributable to the acquisition of the relevant assets.

Subsequent costs are included in the carrying amount of the asset or, where applicable, recognised as a separate asset if it is probable that the economic benefits related to the asset will go to the group and that the cost of the asset can be reliably measured. All repair and maintenance costs are recognised in the income statement during the period in which they are incurred.

Land is not depreciated. Other assets are depreciated according to the straight-line method. Except for special cases, the residual values are zero. The depreciation periods are based on the estimated useful lives of the different categories of assets:

- Buildings: 50 years
- Fixtures and fittings: 5 - 50 years
- Plant and equipment: 5 - 10 years
- Other (furniture etc.): 3 - 10 years

2.7 Leases

Assets acquired under finance leases that transfer substantially all of the risks and rewards incidental to ownership of the asset to the Group are accounted for as follows:

- At inception, the leased asset is measured in the balance sheet at the lower of its fair value or the net present value of the minimum future lease payments;
- A corresponding amount is recognised as a financial liability.
- Lease payments are allocated to financial expense and repayment of the liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases that do not transfer substantially all of the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments are classified as expenses on a straight-line basis.

2.8 Impairment of assets

2.8.1 Impairment of assets with a finite useful life

Amortised assets are tested for impairment where, due to events or special circumstances, the recoverability of their carrying amounts becomes doubtful. Impairment is recognised to match the surplus of the carrying amount over the recoverable amount of the asset. The recoverable amount of an asset represents the greater of fair value less costs to sell and its value-in-use. For the purposes of measuring impairment, the assets are grouped into cash-generating units, which represent the lowest level of unit generating separate cash flow. For non-financial assets (other than goodwill) that are impaired, the possible release of the impairment is reviewed at each annual or interim reporting date.

2.8.2 Impairment of assets with an indefinite useful life

Goodwill and administrative permits undergo annual impairment tests. The recoverable amounts of the cash generating units or groups of cash generating units to which these intangible assets are attached are determined from the calculations of the value in use or their fair value less costs to sell.

The calculation of the value in use retained by the group is based on discounting future cash flows that will be generated by the continuous use of the assets tested. Discounting is carried out at a rate corresponding to the average weighted cost of capital.

Intangible assets undergo impairment tests at least once per year or more frequently if there is an indication of an impairment loss.

External and internal indicators are used to determine whether there is objective evidence of impairment.

Tests are performed at two levels:

- Level one: care facility

Impairment tests on intangible assets and property, plant and equipment (excluding goodwill) are performed at the level of each cash generating unit (CGU), which is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In the Group's case, this is each care facility.

First level tests are performed to determine whether the recoverable amount of the CGU's economic assets is at least equal to their carrying amount. Economic assets comprise operating permits, the associated property assets (including property finance leases), other intangible assets, other property plant and equipment, financial assets and working capital.

The recoverable amount is equal to value in use calculated on a discounted cash flow basis.

- Level two: operating segment

Goodwill impairment tests are performed at the level of groups of CGUs forming the operating segments, namely:

- Long-term care
- Post-acute and psychiatric care
- Italy.

The second level tests aim to determine whether the recoverable amount of the economic assets of each operating segment is at least equal to their carrying amount. The recoverable amount is equal to value in use calculated on a discounted cash flow basis by aggregating the individual values obtained from the first level tests on each separate care facility.

2.9 FINANCIAL ASSETS AND LIABILITIES

IAS 32 and 39 have been applied by the group since 1 January 2009.

Financial assets defined by IAS 39 include loans and receivables available-for-sale financial assets, held-to-maturity financial assets and financial assets at fair value. These correspond to the following balance-sheet items: available-for-sale assets, other non-current financial assets, trade and other receivables, derivative financial instruments and cash and cash equivalents. Management determines the classification of its financial assets at initial recognition and reconsiders it, in accordance with IAS 39, on each annual or interim closing date.

The financial liabilities defined by IAS 39 include loans recognised at amortised cost and financial liabilities at fair value. These correspond to the following balance-sheet items: current and non-current financial liabilities, other liabilities, trade and other payables and derivative financial instruments. Management determines the classification of its financial liabilities upon initial recognition.

- ***Loans and receivables***

Loans and receivables are non-derivative financial assets with determined or determinable payments and are not traded on an active market. They are included in current assets, apart from those whose maturity exceeds twelve months after the closing date. The latter are classified in non-current assets. Loans and receivables are recognised in the balance sheet under "Trade receivables", "Other receivables" and "Financial receivables" according to their nature.

- ***Assets held to maturity***

Assets held to maturity primarily include deposits and guarantees. They are classified as non-current financial assets.

These assets mainly comprise security deposits related to rent payments. Their value is adjusted regularly in line with rent revisions. The impact of discounting is regarded as immaterial for the group's accounts. These assets are tested for impairment whenever there is objective evidence of impairment. A provision for impairment is recorded when the carrying amount is greater than the estimated recoverable amount.

- ***Available-for-sale financial assets***

Available-for-sale financial assets include investment securities of non-consolidated companies. They are included in non-current assets, unless the group plans to sell them within twelve months after the closing date. They are maintained in the balance sheet at their acquisition cost, which the group considers to represent their fair value in the absence of an active market. Impairment is recognised in case of a long-term decline in their value in use. The value in use is determined according to financial criteria such as share of equity and profitability outlook.

2.9.2 MEASUREMENT AND RECOGNITION OF FINANCIAL LIABILITIES

- ***Non-current financial liabilities***

Non-current financial liabilities mostly include loans from credit institutions, bonds and liabilities arising from the recognition of assets held under finance leases.

Non-current financial liabilities are initially recorded at fair value, which corresponds to the amount received, net of transaction costs.

After initial recognition, they are measured at amortised cost using the effective interest rate method, which takes account of all transaction costs. Any difference between the proceeds (net of transaction costs) and the repayment amount is recognised through profit or loss over the life of the loan using the effective interest rate method.

Borrowing costs:

In accordance with IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense.

The Medica Group considers all renovation, redevelopment and extension projects with a long-completion time before they can be used as qualifying assets.

Borrowing costs eligible for capitalisation are those arising on all general credit facilities that are not allocated to a specific asset and all interest rate hedging instruments.

The interest rate used is the weighted average for the qualifying borrowing costs calculated using the effective interest rate method.

Convertible bonds:

For convertible bonds, the compound financial instrument is separated into a debt component and an equity component upon initial recognition. The fair value of the debt component at issue is determined by discounting future contractual cash flows, by using the applicable market rate for a bond issue that may have been carried out by the company at the same conditions but without a conversion option. The debt component is then measured at amortised cost using the effective interest-rate method. The value of the equity component is determined at issue as the difference between the fair value of the debt component and the proceeds of the issue. The value of the conversion option is not reviewed during subsequent years.

The issuance costs are allocated between the debt component and the equity component on the basis of their respective carrying amounts at the time of the issue.

- ***Other financial liabilities***

With the exception of derivative instruments, other financial liabilities are measured at amortised cost.

2.9.3. Measurement and recognition of derivative financial instruments and hedging transactions

The fair value of financial instruments traded on an active market (such as units of cash UCITS booked under cash equivalents) is based on market prices at the closing date. Market prices used for the financial assets held by the group are the buyer prices in force on the market on the valuation date.

The fair value of financial instruments not traded on an active market (such as derivatives traded over the counter and investment securities) is determined with the help of valuation techniques. The group uses different valuation techniques and makes assumptions based on market conditions existing on the closing date. The fair value of interest rate swaps is calculated as the discounted value of estimated future cash flows. The fair value of forward currency contracts is determined using forward exchange rates on the closing date.

Derivative financial instruments are initially recognised at fair value. They are then re-measured, at the end of every period, at fair value through profit and loss except for hedges of future cash flows. The method for recognising the related profit or loss depends on the designation of the derivative as a hedging instrument and, where applicable, on the nature of the hedged item.

Some of the derivative instruments held by the group are considered as derivative instruments held for trading. The changes in fair value of these derivative instruments are immediately recognised in profit or loss as other financial income and expense. Another portion of these derivative instruments is held for hedging purposes, and any changes are taken to equity when the effectiveness of the hedge is demonstrated. Derivative financial instruments are classified as current or non-current assets and liabilities depending on their maturity.

2.10 Inventories

Inventories are recognised at the lower of cost or net realisable value.

As they are mostly consumable supplies, they are recognised at their purchase cost.

2.11 Trade and other receivables

Trade receivables are recognised at their face value, which is considered to be the best proxy for fair value. A provision for impairment of trade receivables is recognised whenever there is objective evidence that the full amount due may not be recovered in accordance with the initial terms and conditions of the transaction. The age of the receivable and payment arrears are evidence of impairment.

2.12 Cash and cash equivalents

The heading "Cash and cash equivalents" includes liquid assets, sight bank deposits, highly liquid short-term investments with initial maturities of less than or equal to three months (mostly cash UCITS) and the net creditor positions of cash pooling. Bank overdrafts are posted on the liabilities side of the balance sheet as current financial liabilities.

2.13 Treasury shares

Treasury shares owned by Medica and/or other Group companies are deducted from consolidated equity at cost.

Gains or losses on purchases and sales of treasury shares are recognised directly in consolidated equity and have no impact on profit or loss.

2.14 Share capital

Ordinary shares are classified in equity.

The additional costs directly attributable to the issuance of new shares or options are recognised in equity and deducted from the proceeds of the issue, net of taxes.

In the event of the sale or subsequent reissue of these shares, the income received, net of the additional costs directly attributable to the transaction and the related tax impact, is included in equity attributable to the shareholders of the Company.

2.15 Provisions

Provisions for contingencies such as litigation are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, discounted if necessary.

2.16 Employee benefits

2.16.1 Short-term benefits

Group employees receive short-term benefits such as paid leave, sick leave, bonuses and other benefits (except termination benefits), which are payable no later than twelve months after the service has been rendered by the employee.

They are recognised as current liabilities.

2.16.2 Post-employment benefits

The group has a legal obligation to pay its employees termination benefits when they retire. As a result, the group has long-term liabilities under a defined-benefit pension plan as defined by IAS 19, since the plan defines the amount of the pension benefit that will be collected by an employee who retires. In general, this amount depends on one or more factors, such as age, length of service and salary.

The liability booked in the balance sheet under pension plans and other defined-benefit plans corresponds to the discounted value of the obligation linked to the defined-benefit plans at year-end as well as the adjustments for actuarial gains and losses and unrecognised past service costs. The obligation under defined-benefit plans is calculated each year by independent actuaries according to the projected unit credit method. The discounted value of the obligation under the defined-benefit plan is determined by discounting the estimated future cash outflows based on the interest rate of top-quality corporate bonds and whose term is close to the estimated average term of the pension liability concerned.

Actuarial gains and losses stemming from experience adjustments and adjustments of actuarial assumptions, exceeding 10% of the discounted value of the obligation under the defined-benefit plans (corridor method), are taken to income over the term of the expected residual average active life of the concerned employees.

Past service costs are immediately recognised in income, unless changes to the pension plan depend on the employees remaining active over a given period (the vesting period). In the latter case, past service costs are amortised on a straight-line basis over the vesting period.

In addition, the group pays contributions to public or private pension insurance plans on a mandatory basis. Once the contributions are paid, the group is not bound by any other payment requirements. The contributions are recognised as an employee benefits expense when they are due. Contributions paid in advance are recognised as an asset insofar as the payment of an advance results in reducing future payments or a cash refund. Details of current assumptions are provided in note 4.13.

2.16.3 Other long-term benefits

The other employee and related commitments for which provisions are set aside consist mainly of long-service awards.

2.17 Deferred taxes

Deferred taxes are booked according to the liability method for the amount of the temporary differences between the tax base of assets and liabilities and their carrying amount in the consolidated financial statements. No deferred tax is booked if it arises from the initial recognition of an asset or a liability linked to a transaction, other than a business combination, which, at the time of the transaction, affects neither the accounting income nor the tax income. Deferred taxes are determined using the tax rates (and tax regulations) that were enacted or substantively enacted on the closing date and which are intended to be applied when the concerned deferred tax asset is realised or the deferred tax liability is settled.

The effect of any change in the tax rate is taken to income, with the exception of changes concerning items directly recognised in equity. Deferred tax assets and liabilities are netted if the entities are legally entitled to carry out netting and are covered by the same tax authority. Deferred tax assets are not recognised unless the realisation of a future taxable profit, which will allow the deduction of temporary differences, is probable. Their recoverable amount is reviewed at each closing date and their value is reduced to the extent that it is no longer probable that a sufficient taxable profit will be available to allow the use of all or part of the advantage of this deferred tax asset.

2.18 Trade and other payables

Trade and other payables are recognised at historic cost, which is considered to be the best proxy for fair value.

2.19 Income statement

The Medica group has chosen to continue presenting its income statement by nature in order to maintain the clarity required to assess its performance.

2.19.1 Revenue

Revenue mostly comprises services supplied in the context of accommodating and caring for residents regardless of the origin of the payment.

It is recognised as and when the services are provided. The allowances received in the context of the Tripartite Agreements constitute a revenue item. Amounts collected that are likely to be paid back, on the grounds of a partial use of these amounts with respect to the commitments taken by the group in the context of the Agreements, are deducted from revenue and recorded under "Other non-current liabilities".

2.19.2 EBITDA

EBITDA corresponds to earnings before interest, taxes, depreciation and amortisation.

2.19.3 Non-recurring operating income and expense

Significant non-recurring transactions that may distort comparisons of recurring operating performance from year to year are classified as non-recurring operating income and expense in accordance with the CNC recommendation of 2 October 2009. They include:

- capital gains or losses on sales or significant and unusual impairment of property, plant and equipment or intangible assets;
- restructuring costs resulting from plans of an unusual nature and size that might distort comparisons of recurring operating profit from year to year;
- very large provisions and other costs, notably expenses related to security acquisitions;
- non-recurring transactions;
- negative goodwill.

2.19.4 Net finance costs

Net finance costs comprise the cost of net debt, along with other financial income and expense.

Cost of net debt

The cost of net debt includes:

- income from cash and cash equivalents (interest income, income from the disposal of cash equivalents, income from interest rate and currency hedges on cash and cash equivalents);
- the gross cost of financial debt (interest charges on financing transactions, result of interest rate and currency hedges on gross financial debt, gains and losses linked to the extinguishment of debts).

Finance costs and financial income

This item includes financial income and expense that is not operational and is not part of the cost of net debt:

- financial income (dividends, gains on the disposal of available-for-sale assets, interest income and gains on the disposal of other financial assets (excluding cash and cash equivalents), gains on trading derivatives (currency and exchange-rate), discounting income, positive changes in the fair value of financial assets and liabilities measured at fair value through profit and loss, gains on interest-rate and currency hedges on previous transactions, and other financial income;
- finance costs (impairment of available-for-sale assets, losses on the disposal of available-for-sale assets, impairment and losses on the disposal on other financial assets (excluding cash and cash equivalents), losses on trading derivatives (currency and exchange-rate), discounting charges, adverse changes in the fair value of financial

assets and liabilities measured at fair value through profit and loss, losses on interest rate and currency hedges on previous transactions, and other financial expenses).

2.20 Dividends

Dividends paid to the Company's shareholders are recognised as liabilities in the group's financial statements during the period in which the dividends are approved by the Company's shareholders.

2.21 Earnings per share

Net earnings per share are calculated by dividing the net profit for the year attributable to the Company's shareholders by the weighted average number of shares in issue during the year.

Diluted net earnings per share is calculated by dividing net profit attributable to the Company's shareholders by the weighted average number of ordinary shares in issue during the year plus the number of ordinary shares that would result from the conversion of preferred shares and convertible bonds as defined by the AGM of 24 January 2010.

2.22 Consolidated cash flow statement

Net cash and cash equivalents are defined as cash and cash equivalents less bank overdrafts and debit balances on bank accounts, included in the Group's cash management. Changes in net cash and cash equivalents are analysed in the consolidated cash flow statement.

3. Operating segments

In accordance with IFRS 8 "Segment reporting" and the operational organisation of the activity, the information presented is based on the group's internal reporting:

- Long-term care covers all the Group's nursing and residential care homes for the elderly in France;
- Post-acute and psychiatric care covers the Group's facilities providing short-term post-operative and rehabilitation care, as well as psychiatric services;
- Italy covers all care facilities in Italy.

EBITDAR corresponds to EBITDA before rent.

In thousands of euros	2010	2009	2008
Revenue			
Long-term care	334,625	289,589	266,872
Post-acute and psychiatric care	144,180	141,397	134,790
Italy	60,074	49,741	47,152
Total	**538,879**	**480,727**	**448,814**
EBITDAR (EBITDA before rent)			
Long-term care	90,644	79,270	73,894
Post-acute and psychiatric care	37,851	36,282	32,606
Italy	14,771	11,727	11,866
Total EBITDAR	**143,265**	**127,279**	**118,366**
Rental expense	**(48,315)**	**(42,664)**	**(40,025)**
EBITDA	**94,950**	**84,615**	**78,341**

In thousands of euros	2010	2009	2008
Assets			
Long-term care	979,044	800,026	771,910
Post-acute and psychiatric care	374,724	357,024	363,564
Italy	133,257	97,474	93,874
Total	**1,487,026**	**1,254,524**	**1,229,347**

4. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

4.1 GOODWILL

The main movements in goodwill for the period can be analysed as follows:

In thousands of euros	Long-term care	Post-acute and psychiatric care	Italy	Total
Net goodwill at 31 December 2008	**218,286**	**101,064**	**30,486**	**349,836**
Business combinations	557	426	0	983
Contingent consideration		0	2,303	2,303
Net goodwill at 31 December 2009	**218,843**	**101,490**	**32,789**	**353,122**
Business combinations	11,284	0	3,004	14,288
Contingent consideration		0	0	0
Net goodwill at 31 December 2010	**230,127**	**101,490**	**35,793**	**367,411**

4.2 Intangible assets

The main movements in intangible assets for the period can be analysed as follows:

In thousands of euros	Operating permits	Software	Other intangible assets	Intangible assets in progress	Total
Carrying amount at 31 December 2008	**479,905**	**1,663**	**576**	**375**	**482,519**
Newly-consolidated companies	0				0
Acquisitions		687	39	364	1,090
Disposals					0
Downpayments	600		(550)		50
Transfers of intangible assets in progress					0
Amortisation		(585)	(14)		(600)
Carrying amount at 31 December 2009	**480,505**	**1,765**	**51**	**738**	**483,059**
Newly-consolidated companies	73,428	8			73,435
Acquisitions		400	5	1,473	1,879
Disposals		(4)			(4)
Reclassification	(50)	271	2	(274)	(51)
Amortisation		(626)	(16)		(642)
Carrying amount at 31 December 2010	**553,883**	**1,813**	**43**	**1,938**	**557,677**
Cost of acquisition	553,883	5,771	82	1,938	561,674
Accumulated amortisation		(3,958)	(39)		(3,997)
Carrying amount at 31 December 2010	**553,883**	**1,813**	**43**	**1,938**	**557,677**

4.3 Periodic impairment tests

Pursuant to IAS 36 "Impairment of assets", impairment tests were carried out at the end of 2010 on the value of intangible assets with an indefinite useful life (non-amortisable), property assets and goodwill.

The carrying amount of each asset group is compared to its fair value less costs to sell or its value in use defined as the net present value of expected cash flows derived from the latest forecasts for each of the groups of cash generating units.

The 2011 budget is extrapolated over the following four years by applying a 3% annual growth rate to revenue. These assumptions are based on past experience of medium-term plans, and on macroeconomic data relating to the health market. This growth rate does not exceed the medium-to long-term growth rate of the group's business segments. The group uses an exit value equal to the net present value of the last year of the business plan, assuming a perpetual growth rate of 2.5%. The discount rates used are 6.8% for France and 7% for Italy, based on the average weighted cost of the group's capital.

Impairment tests give a recoverable amount that is higher than the carrying amount of the assets tested.

These tests did not result in the recognition of impairment on either goodwill, permits or property assets over the periods presented.

Sensitivity tests

Based on a 2.5% growth rate, the discount rate would have to rise by more than 0.9 of a percentage point for the long-term care segment, more than 2.5 percentage points for the post-acute and psychiatric care segment and more than 3 percentage points for Italy before the recoverable amount of the assets tested would fall below their carrying amount. A hypothetical change of 1 percentage point in the growth rate would not lead to any impairment of the assets tested.

4.4 PROPERTY, PLANT AND EQUIPMENT

The main movements in property, plant and equipment for the period can be analysed as follows:

In thousands of euros	Land and buil-dings	Vehicles, equipment and tools	Other	Downpayments	Property, plant and equip-ment in progress	Total
Carrying amount at 31 December 2008	**247,554**	**9,225**	**19,013**	**0**	**19,159**	**294,951**
Newly-consolidated companies						
Acquisitions	20,264	3,556	5,665		15,214	44,699
Disposals	(7,227)	(0)			(8,466)	(15,693)
Transfers of property, plant and equipment in progress	2,375	430	165		(2,971)	0
Reclassification					(11,402)	(11,402)
Depreciation	(10,763)	(2,584)	(4,884)	0	0	(18,230)
Carrying amount at 31 December 2009	**252,205**	**10,626**	**19,960**	**0**	**11,534**	**294,325**
Newly-consolidated companies	15,548	763	7,625		892	24,827
Acquisitions	16,064	3,911	6,773	451	23,523	50,722
Disposals	(5,598)	(34)	(92)		(4,265)	(9,989)
Reclassification	9,188	10	(2,453)		(9,232)	(2,486)
Depreciation	(14,693)	(2,954)	(5,467)			(23,115)
Carrying amount at 31 December 2010	**272,713**	**12,321**	**26,347**	**451**	**22,453**	**334,286**
Cost of acquisition	369,949	34,856	74,014	451	22,453	501,723
Accumulated depreciation	(97,235)	(22,535)	(47,668)			(167,437)
Carrying amount at 31 December 2010	**272,713**	**12,321**	**26,347**	**451**	**22,453**	**334,286**

Assets held under finance leases and recognised in the balance sheet are as follows:

In thousands of euros	**2010**	**2009**
Land and buildings		
Cost of acquisition	221,096	191,718
Accumulated depreciation	(52,081)	(47,646)
Carrying amount	**169,015**	**144,072**
Vehicles, equipment and tools		
Cost of acquisition	3,618	2,968
Accumulated depreciation	(784)	(316)
Carrying amount	**2,834**	**2,651**

4.5 Available-for-sale assets

Available-for-sale financial assets mainly comprise minority interests in non-consolidated companies, in an amount of €1,346 thousand.

4.6 Other financial assets

Financial receivables mostly comprise security deposits related to leases. These deposits are revised annually.

Rents paid in advance are discounted at the rate of 5.5%. The short-term portion is classified in other receivables.

In thousands of euros	**2010**	**2009**	**2008**
Advances on acquisitions of consolidated securities	184	11	106
Advance rents	70	137	200
Security deposits	19,089	17,241	14,165
Other		0	6
Other non-current financial assets	**19,343**	**17,389**	**14,478**

4.7 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

In thousands of euros	2010	2009	2008
Trade receivables	38,045	32,055	37,998
Impairment provision	(2,752)	(2,127)	(2,049)
Trade receivables - net	**35,293**	**29,927**	**35,948**
Tax and social security receivables	6,600	3,692	5,431
Accrued income	3,183	4,269	4,512
Advances paid	760	707	849
Other	6,211	4,061	2,175
Other receivables	**16,754**	**12,728**	**12,967**
Prepaid expenses	4,528	6,725	8,797
Other current assets	**4,528**	**6,725**	**8,797**

The use or reversal of provisions for impairment of receivables is recognised under "Other operating income and expense" in the income statement, and deducted from losses on irrecoverable receivables. Reversals of unused provisions are deducted from additions to provisions for the year.

Prepaid expenses at 31 December 2010 mostly concerned rents.

Accrued income mostly corresponds to tripartite allowances to be received as well as the expected reimbursement of training expenses.

The increase in tax and social security receivables was mainly due to newly-consolidated companies.

The following table shows a breakdown of trade receivables at 31 December 2010 by due date:

In thousands of euros	Total	Age of receivable at end of period		
		Less than 3 months	3 months - 1 year	Over 1 year
Trade receivables (incl. VAT) due at 31.12.10 net of other payables *	33,953	23,282	5,931	4,740
Provisions (exc. VAT)	(2,752)	(2)	(35)	(2,716)
Total trade receivables - net	31,201	23,281	5,896	2,024
	100%	*75%*	*19%*	*6%*
Trade receivables (incl. VAT) due at 31.12.2009 net of other payables *	25,480	15,590	4,808	5,081
Provisions (exc. VAT)	(2,127)	(67)	(295)	(1,766)
Total trade receivables - net	23,353	15,523	4,513	3,315
	100%	*66%*	*19%*	*14%*
Trade receivables (incl. VAT) due at 31.12.2008 net of other payables *	31,767	18,780	7,818	5,167
Provisions (exc. VAT)	(2,049)	(71)	(292)	(1,686)
Total trade receivables - net	29,718	18,709	7,526	3,481
	100%	*63%*	*25%*	*12%*

* Other payables, recognised as current liabilities, include advances paid by French local authorities on dependency and social support allowances for long-term care facilities, and advances paid by the national health system for post-acute and psychiatric care facilities.

4.8 Tax assets

In thousands of euros	2010	2009	2008
Tax assets	1,670	1,631	1,864

Tax assets relate to income tax paid on account.

4.9 Derivative financial instruments

Medica's financial liabilities are mainly floating rate and the Group therefore uses derivative financial instruments to hedge against changes in interest rates.

Some of these derivatives are documented as cash flow hedges in accordance with the provisions of IAS 39.

The change in fair value of the effective portion of the hedges is recognised in equity on each reporting date. The fair value of hedging instruments is calculated as the net present value of estimated future cash flows.

Following the debt repayment and arrangement of a new credit facility, the Group:

- unwound a portion of the notional interest rate swaps in June that no longer met the conditions for hedge accounting under IAS 39 in exchange for a payment of €5.74 million;
- combined the balance of the remaining swaps eligible for hedge accounting into a single hedge on the same terms and conditions. The notional amount of fixed-rate swaps held by the Group was €350 million expiring on 30 June 2011, with a fixed-rate of 3.6785% against 3-month Euribor.
- purchased in July two new deferred start swaps of €100 million and €250 million respectively, with a forward start date of 3 January 2011. They have a fixed interest rate of 1.635% and 1.75% respectively and a maturity of 31 December 2013 and 30 June 2014 respectively.

The swaps have been documented as hedges of variable-rate financial liabilities and have therefore been accounted for as cash flow hedges since July 2010. At the same time, the hedging relationship between the old restructured swap and the financial liabilities was discontinued prospectively and changes in fair value will therefore be recognised in profit or loss from July 2010 to June 2011. The changes in the effective portion of this swap accumulated in equity at 30 June 2010 were transferred to profit or loss.

The Group also has three 6% caps on 3-month Euribor in an aggregate notional amount of €500 million exercisable from 30 June 2011 to 30 June 2013. These caps do not qualify for hedge accounting and changes in fair value are therefore recognised in profit or loss under financial income and expense.

In thousands of euros			**Fair value on the balance sheet**						**Recognition of changes**				
Type of contract	**Notional amount in millions of euros**		**2010**		**2009**		**2008**		**2010**			**2009**	
	2010	**2009**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Profit and loss**	**Equity - other comprehensive income**	**Cash and cash equivalents**	**Profit and loss**	**Equity - other comprehensive income**
Swaps	700 (1)	545	1,459	4,673		18,889		14,101	5,355	4,581	5 739 (2)		(4,788)
Caps	500	500	327		1,054		552		(726)			502	
Swaps	0	437						616	616	(616)			616
Derivative financial instruments			**1,786**	**4,673**	**1,054**	**18,889**	**552**	**14,717**	**5,245**	**3,965**	**5,739**	**502**	**(4,172)**

(1) Includes the €350 million swaps purchased in July 2010 with a deferred start date of 3 January 2011.
(2) The impact on cash and cash equivalents was a cash outflow.

4.10 Cash and cash equivalents

In thousands of euros	**2010**	**2009**	**2008**
Money market funds	101,448	7,849	10,864
Pooled cash and debit accounts	40,892	30,696	13,109
Cash and cash equivalents	**142,340**	**38,546**	**23,974**
Bank overdrafts	(12,318)	(4,142)	(2,338)
Net cash and cash equivalents	**130,022**	**34,403**	**21,636**

Money market funds mainly comprise funds with an interest-rate risk sensitivity of less than or equal to 0.25 and 12-month historical volatility of close to zero.

4.11 Non-current assets or disposal groups held-for-sale

In accordance with IFRS 5, to qualify as a non-current asset held for sale, management must be committed to a plan to sell the asset and have initiated an active programme to locate a buyer. The asset must be actively marketed and the sale should be expected to be completed within one year. Actions required to complete the plan should indicate that it is unlikely that significant changes will be made or that the plan will be withdrawn. At 31 December 2009, €11.2 million of non-current assets were classified as held for sale and were sold in December 2010.

4.12 Share capital

The IPO in February 2010 led to the conversion of the existing preferred shares and convertible bonds and the issuance of new shares. The share capital thus rose from €11,348 thousand to €18,653 thousand in 2010.

The Medica Group owns 103,820 treasury shares.

The group does not have any stock option or stock award plans.

4.13 Employee benefit obligation

In thousands of euros	**2010**	**2009**	**2008**
Liabilities recognised on the balance sheet under:			
Retirement benefits	6,546	5,569	4,974
Long-service awards	95	92	80
Total	**6,641**	**5,662**	**5,054**
Amount charged to the income statement under:			
Retirement benefits	729	595	677
Long-service awards	2	12	16
Total	**731**	**608**	**693**

The amounts recognised on the balance sheet are determined as follows:

In thousands of euros	**2010**	**2009**	**2008**
Present value of unfunded liabilities	6,732	5,746	4,642
Unrecognised actuarial gains or losses	(91)	(84)	412
Liabilities on the balance sheet	**6,641**	**5,662**	**5,054**

The table below indicates the amounts recognised in the income statement:

In thousands of euros	**2010**	**2009**	**2008**
Service cost	731	624	588
Interest cost	312	285	238
Net actuarial loss/(gain) recognised during the year	(8)	(42)	(22)
Past service cost	0	0	15
Employee benefit cost	**1,034**	**867**	**819**
Benefits paid out	(303)	(259)	(126)
Net expense for the year	**731**	**608**	**693**
Of which employee benefits expense	*419*	*323*	*455*
Of which financial expense	*312*	*285*	*238*

Changes in liabilities on the balance sheet are indicated below:

In thousands of euros	**2010**	**2009**	**2008**
Liabilities at start of period	5,662	5,054	4,124
Liabilities assumed in business combinations	249		236
Employee benefit cost	1,033	867	819
Benefits paid out	(303)	(259)	(126)
At year-end	**6,641**	**5,662**	**5,054**
Of which due in less than one year	*1,169*	*987*	*746*
Of which due in more than one year	*5,473*	*4,674*	*4,308*

The main actuarial assumptions used are as follows:

	2010	2009	2008
Discount rate	4.6%	5.2%	6.3%
Future salary increase rate	2.5%	2.5%	2.5%
Retirement age	Non-managerial: 60 to 62 Managerial: 63 to 64	Non-managerial: 60 Managerial: 62	Non-managerial: 60 Managerial: 62
Staff turnover rate	0-8% depending on age	0-8% depending on age	0-8% depending on age

The impacts of the pension reform delaying the retirement age have been recognised in actuarial gains or losses.

Sensitivity of liabilities to a change in discount rate: liabilities increase by €337 thousand if the discount rate falls by 0.5% and decrease by €262 thousand if the discount rate rises by 0.5%.

4.14 OTHER PROVISIONS

Other long-term provisions include:

In thousands of euros	Industrial tribunals	Restructuring	Other	Total
At 31 December 2007	**2,446**	**228**	**4,937**	**7,611**
- Increase in provisions	1,915	1,626	947	4,488
- Reversals (unused)	(563)	(122)	(2,052)	(2,737)
- Reversals (used during the period)	(665)	(89)	(411)	(1,165)
- Changes in scope	283	0	138	422
- Reclassification	366		(366)	0
At 31 December 2008	**3,782**	**1,643**	**3,194**	**8,619**
- Increase in provisions	1,317	929	1,492	3,738
- Reversals (unused)	(29)		(1,485)	(1,515)
- Reversals (used during the period)	(1,466)	0	(843)	(2,309)
- Changes in scope	0	0	0	0
- Reclassification	(176)	178	(2)	(0)
At 31 December 2009	**3,429**	**2,750**	**2,355**	**8,534**
- Increase in provisions	910	1,215	619	2,745
- Reversals (unused)			(66)	(66)
- Reversals (used during the period)	(2,362)	(878)	(1,523)	(4,762)
- Changes in scope	460	168	145	773
- Reclassification	0	0	(10)	(10)
At 31 December 2010	**2,437**	**3,255**	**1,520**	**7,213**

4.15 Other non-current liabilities

In thousands of euros	2010	2009	2008
Prepaid income (more than 1 year)	2,038	2,805	4,527
Residents' deposits	16,915	13,916	13,983
Contingent consideration payable	1,211	1,147	6 600
Lease liabilities	2,810	2,979	3,130
Other long-term liabilities	634	2,213	2,115
Other non-current liabilities	**23,608**	**23,061**	**30,355**

Other non-current liabilities mainly include deposits paid by residents. They are not discounted as they are repaid within two to three years of receipt on average.

Lease liabilities relate to a lease for which the rents are due in 2012 and 2019 (two components). They have been discounted at a rate of 5.5%.

4.16 Long-term and short-term debt

In thousands of euros	2010	2009	2008
Bonds			90,391
Bank loans	478,377	392,110	571,120
Other financial liabilities	1,598	1,511	1,811
Accrued interest on borrowings			57,825
Total long-term debt	**479,975**	**393,621**	**721,146**
Bonds	0	100,217	0
Bank loans	14,462	203,775	13,796
Other financial liabilities	360	313	390
Accrued interest on borrowings	226	85,084	453
Bank overdrafts	12,318	4,142	2,338
Total short-term debt	**27,366**	**393,531**	**16,977**
Total long-term and short-term debt	**507,341**	**787,152**	**738,123**
Bonds (equity component)	0	74,597	74,597
Cumulative impact of amortised cost	5,001	5,118	20,792
Total redemption value of long-term and short-term debt	**512,342**	**866,867**	**833,512**

The debt structure changed substantially during the year following the IPO on 10 February 2010 and the concurrent conversion of convertible bonds, repayment of the mezzanine debt and syndicated loan, and the arrangement of a new credit facility on 16 June 2010.

Finance leases in 2010 comprise agreements under the sale and leaseback arrangements entered into on December 2010.

All amounts due to credit institutions are guaranteed or secured by other collateral.

ANALYSIS OF DEBT:

Debt can be analysed as follows:

In thousands of euros	Nominal interest rate (%)	2010	2009	2008	Maturity
Bonds					
€174.8 million bond issue	10.00% capitalised	0	241,910	219,923	
Redemption value of bonds		0	241,910	219,923	
Syndicated loans					
€350 million loan	3m Euribor + 1.65%	350,000	0		2,015
€92 million mezzanine debt	3m-Euribor + 4% + capitalised interest 4.625%	0	109,638	104,715	
Syndicated loans	3m Euribor + 1.75% to 2.5%	0	466,626	459,066	
Accrued interest on borrowings		684	361	453	
Other financial liabilities					
Finance leases	Fixed and variable rate	134,947	34,067	34,776	2,022
Other bank loans	Fixed and variable rate	14,392	10,123	12,241	
Bank overdrafts		12,318	4,142	2,338	
Redemption value of syndicated loans and other financial liabilities		512,342	624,957	613,589	
Redemption value of bank loans and debt		512,342	866,867	833,512	
Bonds (equity component)		0	(74,597)	(74,597)	
Cumulative impact of amortised cost		(5,001)	(5,118)	(20,792)	
Total bank loans and financial liabilities		507,341	787,152	738,123	

NET DEBT:

Net debt as defined by the group corresponds to the total of financial liabilities and bank loans less cash and cash equivalents.

In thousands of euros	2010	2009	2008
Total bank debt and financial liabilities	507,341	787,152	738,123
- Cash and cash equivalents	(142,340)	(38,546)	(23,974)
Net debt	**365,001**	**748,606**	**714,149**

BANK RATIOS:

The Group is required to comply with the usual financial covenants for these loans. In the event of non-compliance with one or more conditions, the banks may force the Group to repay some or all of the loan or renegotiate the financing conditions.

The group was required to comply with the following financial covenants at 31 December 2010:

Financial covenants	Net debt to EBITDA
Target	< 4.5
Actual	3.6

BREAKDOWN OF DEBT BY MATURITY:

The following table shows a breakdown of debt by maturity:

In thousands of euros	Less than one year	Between one and five years	More than five years	Redemption value
Syndicated loans and other financial liabilities	3,796	356,498	4,782	365,076
Finance leases	11,252	40,304	83,390	134,947
Bank overdrafts	12,318			12,318
Total redemption value	**27,366**	**396,802**	**88,173**	**512,342**

EFFECTIVE INTEREST RATES:

Period-end effective interest rates are set out below:

	2010	2009	2008
Convertible bonds and syndicated loan	2.90%	6.60%	8.39%
Finance leases	2.87%	7.07%	5.85%

Sensitivity of financial expenses:

A 0.5% increase (decrease) in interest rates would increase (decrease) financial expense by €0.7 million before tax.

FINANCE LEASES:

The net present value of finance lease liabilities is indicated below:

In thousands of euros	2010	2009	2008
Less than 1 year	15,721	9,064	10,443
Between 1 and 5 years	52,118	19,956	24,088
More than 5 years	93,737	9,405	7,641
Future minimum payments under finance leases	**161,576**	**38,426**	**42,171**
Future financial expenses related to finance leases	26,629	4,359	7,396
Finance lease liabilities	**134,947**	**34,067**	**34,776**
Current portion of finance lease liabilities	11,252	7,930	7,806
Non-current finance lease liabilities	**123,695**	**26,137**	**26,970**

4.17 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

In thousands of euros	2010	2009	2008
Trade payables	**42,839**	**36,607**	**36,993**
Tax and social security liabilities	66,278	43,876	37,220
Downpayments received	4,514	4,998	5,506
Amounts payable to suppliers of non-current assets	15,062	3,776	246
Other current liabilities	5,346	2,742	2,278
Prepaid income	155	753	779
Other current liabilities	**91,354**	**56,145**	**46,029**

All trade payables and other current liabilities are due in less than one year.

Tax and social security liabilities include VAT repayable on the sale and leaseback transaction.

Amounts payable to suppliers of non-current assets comprise payables relating to construction projects and liabilities relating to the acquisition of shares.

Other current liabilities include €2.1 million due to newly-consolidated companies.

4.18 TAX LIABILITIES

In thousands of euros	2010	2009	2008
Government: tax on net income	2,624	1,075	1,346
Tax liabilities	**2,624**	**1,075**	**1,346**

4.19 Analysis of financial assets and liabilities

Financial assets and liabilities included in balance sheet headings are as follows:

In thousands of euros	Fair value			Financial	Other	Total	Fair
	Held for trading purposes (swap)	Ippocrate contingent consideration	Discounted assets and liabilities	Liabilities at amortised cost	financial instru-ments		value
Other non-current financial assets			70		19,273	19,343	19,343
Available-for-sale assets					1,346	1,346	1,346
Trade receivables					35,293	35,293	35,293
Other receivables (excluding tax assets)			74		11,231	11,305	11,305
Other non-current assets							
Derivative financial instruments	1,786					1,786	1,786
Cash and cash equivalents					142,340	142,340	142,340
Total financial assets	**1,786**	**0**	**144**	**0**	**209,483**	**211,413**	**211,413**
Non-current financial liabilities				478,377	1,598	479,975	479,975
Other non-current liabilities		1,211	2,810		17,549	21,570	21,570
Current financial liabilities				14,462	12,904	27,366	27,366
Trade payables					42,839	42,839	42,839
Other payables					91,354	91,354	91,354
Derivative financial instruments	4,673					4,673	4,673
Total financial liabilities	**4,673**	**1,211**	**2,810**	**492,839**	**166,245**	**667,778**	**667,778**

4.20 External charges

In thousands of euros	2010	2009	2008
Temporary staff	(2,235)	(2,131)	(2,356)
Professional fees	(8,808)	(9,047)	(6,334)
Rental expense	(48,315)	(42,664)	(40,025)
Equipment rental expenses	(6,213)	(5,985)	(6,311)
Maintenance and upkeep	(6,244)	(5,622)	(5,360)
Subcontracting	(49,114)	(43,381)	(40,068)
Purchases not taken to inventory	(12,041)	(11,084)	(10,808)
Other	(10,477)	(9,289)	(10,315)
External charges	**(143,448)**	**(129,203)**	**(121,577)**

Subcontracting includes €34,522 thousand of expenses incurred by the Italian subsidiary Aetas in 2010 and €30,148 thousand in 2009.

4.21 Employee benefits expense

In thousands of euros	2010	2009	2008
Wages, salaries and termination benefits	(176,234)	(154,665)	(144,810)
Social security charges	(70,159)	(59,021)	(56,524)
Retirement expenses -- defined-benefit plans and long service awards	(419)	(323)	(455)
Employee benefits expense	**(246,812)**	**(214,009)**	**(201,790)**
End-of-year workforce (full-time equivalent)			
France	7,271	6,328	6,241
Abroad	125	94	74
Total	**7,396**	**6,422**	**6,315**

4.22 Other operating income and expense

In thousands of euros	2010	2009	2008
Losses on unrecoverable debts	(355)	(322)	(317)
Other operating expense	(921)	(275)	(262)
Other operating expense	**(1,276)**	**(596)**	**(579)**
Operating subsidies	312	367	181
Gains and provision reversals on trade receivables	771	265	545
Other operating income	690	142	841
Other operating income	**1,773**	**774**	**1,567**

4.23 Net depreciation, amortisation and provisions

In thousands of euros	2010	2009	2008
Depreciation and impairment of property, plant and equipment	(23,115)	(18,230)	(16,689)
Amortisation and impairment of intangible assets	(642)	(600)	(743)
Additions to other provisions	(2,745)	(3,744)	(4,488)
Reversals of other provisions	4,874	3,824	3,902
Additions to provisions for retirement and similar benefits	(777)	(608)	(693)
Business combinations	4,246	872	
Additions to depreciation, amortisation and provisions in the cash flow statement	**(18,158)**	**(18,486)**	**(18,712)**
Depreciation and amortisation recognised in the income statement			
Depreciation of property, plant and equipment	(23,148)	(18,230)	(16,689)
Amortisation of intangible assets	(642)	(600)	(743)
Depreciation, amortisation and impairment recognised in the income statement	**(23,790)**	**(18,830)**	**(17,433)**
Including impairment of non-current assets recognised in non-recurring operating income and expense	(1,792)	0	(205)
Total depreciation and amortisation expense excluding impairment charges and reversals recognised in the income statement	**(21,998)**	**(18,830)**	**(17,227)**
Of which current	(23,790)	(18,830)	(17,433)
Of which non-current (closure of facility)	0	0	0

In thousands of euros	Additions to provisions	Revenue	External charges	Employee benefits expense	Other operating income/ expense	Non-recurring operating income/ expense	Financial income/ expense	Total
Additions to non-current provisions	(1,529)					(1,215)		(2,745)
Additions to impairment of trade receivables	(760)							(760)
Additions to provisions for employee benefit obligation				(419)			(312)	(731)
Reversal of non-current provisions (used)	240	877	217	2,362	254	878		4,828
Reversal of trade receivables impairment	307				493			800
Total	**(1,742)**	**877**	**217**	**1,943**	**747**	**(338)**	**(312)**	**1,392**

4.24 NON-RECURRING OPERATING INCOME AND EXPENSE

In thousands of euros	2010	2009	2008
Carrying amount of property, plant and equipment and intangible assets sold	(23,046)	(13,497)	(168)
IPO expenses	(3,031)	(2,390)	
Corporate savings plan expenses			(294)
Carrying amount of securities sold			
Facility closure costs	(4,801)	(3,756)	(2,538)
Non-recurring operating expense	(1,674)		(205)
Non-recurring operating expense	**(32,551)**	**(19,643)**	**(3,205)**
Business combinations	7,214	872	
Proceeds from the sale of property, plant and equipment and intangible assets	22,747	12,392	297
Non-recurring operating income	239	48	
Non-recurring operating income	**30,200**	**13,312**	**297**

4.25 NET FINANCE COSTS

In thousands of euros	2010		2009		2008	
	Expense	Income	Expense	Income	Expense	Income
Interest expense on borrowings	(14,445)		(48,788)		(65,170)	
Interest on finance leases	(1,707)		(2,434)		(3,132)	
Income and expense relating to interest-rate hedges	(9,389)		(13,604)			
Impact of amortised cost on borrowings	(5,661)		(15,672)			888
Cost of gross debt	**(31,202)**	**0**	**(80,498)**	**0**	**(68,302)**	**888**
Proceeds from the sale of cash equivalents		43		49		295
Cost of net debt	**(31,202)**	**43**	**(80,498)**	**49**	**(68,302)**	**1,183**
Financial component of the cost of employee benefit plans	(312)		(285)		(238)	
Non-utilisation fees	(974)		(287)		(540)	
Discounting effects	(140)		(107)		(313)	
Change in fair value of financial instruments	(111)			502		3,631
Impairment of financial assets	(55)				(25,187)	
Other financial expense	(541)		(123)		(136)	
Other financial income		88		74		0
Other financial income and expense	**(2,133)**	**88**	**(802)**	**576**	**(26,414)**	**3,631**
Total financial income or expense	**(33,335)**	**131**	**(81,300)**	**624**	**(94,716)**	**4,814**
Net finance costs		**(33,204)**		**(80,676)**		**(89,902)**

4.26 Income tax expense

- Analysis of income tax expense

In thousands of euros	2010	2009	2008
Current tax expense	(12,200)	(1,387)	(1,770)
Deferred tax income or expense	605	11,752	11,750
Income tax expense	**(11,595)**	**10,365**	**9,980**

- Reconciliation of actual and theoretical income tax expense

In thousands of euros	2010		2009	2008
Profit before tax and profits from associates	35,655		(22,912)	(32,227)
Theoretical tax rate	*33.33%*		*33.33%*	*33.33%*
Theoretical income tax expense/(benefit)	**11,884**	**33.33%**	**(7,637)**	**(10,741)**
Permanent tax and consolidation differences	(701)	(1.97)%	(578)	747
Impact of different tax rates	(561)	(1.57)%	(2,179)	75
Impact of business combinations	(1,401)	(3.93)%	(290)	0
Revaluation of interest held before obtaining control	(989)	(2.77)%	0	0
Unrecognised tax loss carryforwards	121	0.34%	470	(59)
Recognition of tax loss carryforwards	13	0.04%	(1,261)	(2)
CVAE	3,228	9.05%	1,110	0
Recognised tax benefit or expense	**11,595**	**32.52%**	**(10,365)**	**(9,980)**
Effective tax rate	*32.52%*		*45.24%*	*30.97%*

Following the introduction of the new "*contribution économique territoriale*" (CET) applicable to French subsidiaries under the 2010 finance act and in accordance with the memorandum published by the Conseil National de la Comptabilité (French accounting standards-setter) on 14 January 2010, the Group has elected to account for the CET as follows:

- the *Contribution Foncière des Entreprises* (CFE) portion is treated an as operating expense;
- the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE) portion is treated as an income tax within the meaning of IAS 12, because the taxable base is considered to be profit rather than revenue.

- Nature of deferred taxes

In thousands of euros	2010	2009	2008
Share issuance expenses	0	797	0
Temporary differences	7,099	4,637	84
Intangibles	(174,702)	(152,788)	(154,866)
Liabilities and financial instruments	994	(19,521)	(25,258)
Revaluation of property	(37,498)	(35,147)	(36,550)
Finance leases	(13,076)	(13,229)	(11,228)
Recognition of tax loss carryforwards	25,490	22,966	22,554
Post-employment benefits	2,214	1,888	1,685
Total	(189,478)	(190,399)	(203,580)

Deferred tax assets are recognised with respect to tax loss carryforwards to the extent where it is probable that future taxable profits will be available.

- Deferred tax assets recognised on the balance sheet

Deferred tax assets and liabilities are netted where there is a legally enforceable right to net current assets and liabilities and the deferred assets and liabilities concern income tax levied by the same tax authority. The table below indicates the amounts after netting, where applicable:

In thousands of euros	2010	2009	2008
Deferred tax assets	**361**	**1,141**	**561**
Deferred tax liabilities	**(189,839)**	**(191,540)**	**(204,141)**
Net	**(189,478)**	**(190,399)**	**(203,580)**

Changes in net deferred taxes are set out below:

In thousands of euros	2010	2009	2008
Opening balance	**(190,399)**	**(203,580)**	**(207,495)**
Change in scope (note 4)	(23,250)	39	(7,785)
Income tax expense recognised in profit or loss (note 26)	605	11,752	11,750
Income tax expense recognised directly in equity or goodwill	23,566	1,390	(49)
Closing balance	**(189,478)**	**(190,399)**	**(203,580)**

4.27 EARNINGS PER SHARE

Earnings per share (in euros)	2010	2009	2008
Profit/(loss) attributable to equity holders of the parent (in thousands of euros)	23,233	(13,363)	(22,688)
Weighted average number of shares	43,218,304	7,286,040	7,286,040
Earnings per share (in euros)	0.54	(1.83)	(3.11)

Diluted earnings per share (in euros)	2010	2009	2008
Profit/(loss) attributable to equity holders of the parent (in thousands of euros)	25,975	(13,363)	(22,688)
Weighted average number of shares	43,218,304	7,286,040	7,286,040
Dilutive impact of bonds	1,446,064	12,532,551	12,532,551
Dilutive impact of preferred shares in issue	794,727	6,887,631	6,887,631
Diluted earnings per share (in euros)	0.57	(0.50)	(0.85)

4.28 CONTINGENT ASSETS AND LIABILITIES

The group has contingent liabilities linked to bank guarantees and other items occurring in the usual course of its activities. The group does not expect these items to result in material liabilities.

4.29 OFF-BALANCE SHEET COMMITMENTS

Commitments given:

In thousands of euros	2010
Project acquisition undertaking (conditional)	46,435
Total	**46,435**

Commitments received:

In thousands of euros	2010
Asset and liability warranties received following security acquisitions	6,944
Total	**6,944**

Commitments under operating leases for operational care facilities:

(not discounted)

In thousands of euros	2010
Less than one year	51,977
Between one and five years	183,057
More than five years	181,289
Minimum future payments for operating leases	**416,323**

Commitments under operating leases for care facilities under construction:

(not discounted)

In thousands of euros	2010
Less than 1 year	1,044
Between one and five years	24,133
More than five years	43,839
Minimum future payments for operating leases	**69,016**

4.30 RELATED PARTY TRANSACTIONS

In thousands of euros	2010	2009	2008
Short-term benefits (*)	635	590	590
Post-employment benefits	81	74	67

(*) excluding employer charges

4.31 MAIN ITEMS OF THE CASH FLOW STATEMENT

COST OF NET DEBT

In thousands of euros	2010	2009	2008
Interest	(14,445)	(48,788)	(65,170)
Interest on finance leases	(1,707)	(2,434)	(3,132)
Impact of amortised cost	(5,661)	(15,672)	888
Interest on swaps	(14,744)	(13,604)	0
Proceeds from the sale of cash equivalents	44	48	294
Cost of net debt	**(36,513)**	**(80,449)**	**(67,120)**

CHANGE IN WORKING CAPITAL

In thousands of euros	2010	2009	2008
Change in inventories and work in progress	(180)	(292)	(192)
Change in trade receivables	792	6,021	(5,154)
Change in trade payables	(1,225)	(110)	3,223
Change in other receivables and payables	19,388	8,864	16,756
Change in working capital	**18,771**	**14,483**	**14,633**

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT (BREAKDOWN)

In thousands of euros	2010	2009	2008
Acquisitions of property, plant and equipment (see note 4.4)	(50,722)	(44,699)	(40,046)
Assets acquired via a lease contract	463	7,671	1,698
Capitalisation of borrowing costs (IAS 23)	1,216		
Reclassification between intangible assets and property, plant & equipment	0		
Change in payables relating to acquisitions of property, plant and equipment	7,599	3,192	(24)
Additions to property, plant and equipment	**(41,445)**	**(33,836)**	**(38,372)**

ADDITIONS TO INTANGIBLE ASSETS (BREAKDOWN)

In thousands of euros	2010	2009	2008
Acquisitions of intangible assets	(1,877)	(1,090)	(5,328)
Acquisitions of business assets allocated to goodwill	0	(68)	(144)
Change in payables relating to acquisitions of intangible assets	(98)	(102)	234
Change in downpayments on acquisitions of intangible assets	0		(550)
Additions of intangible assets	**(1,975)**	**(1,260)**	**(5,788)**

ISSUANCE AND REPAYMENT OF DEBT

In thousands of euros	2010	2009	2008
Issuance of debt	484,770	11,398	47,476
Repayment of borrowings	(607,973)	(15,146)	(20,835)

4.32 Statutory Auditors' fees

In thousands of euros	Constantin			Exco			Mazars		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Audit of Medica SA									
Statutory audit	86	49	35	39	49	35	86		
Additional services	200	418	0	0	62	0	0		
Audit of subsidiaries									
Statutory audit	355	293	274	0			176		
Additional services									
Total	**641**	**760**	**309**	**39**	**111**	**35**	**262**	**0**	**0**

4.33 Post balance sheet events

The Group had approximately 13,800 beds on 11 February 2011.

From January 2011, the average rate on the Group's swaps will be about 1.7%, a decrease of 200 bps compared with the fixed rate swaps existing in 2010.

5. Risk management objectives and policy

5.1 Market risk

Price fluctuation risk

The group is exposed to the price risk that affects investment securities recognised as available-for-sale assets. However, given the nature of its equity interests, the group considers this risk to be low.

Currency risks

Given that the group's businesses are based in France and in the eurozone, its exposure to currency risks is practically non-existent.

5.2 Credit risk

The group has no significant credit risk concentration. It has implemented policies that allow it to ensure that its clients have an appropriate credit risk record.

For derivative instruments and transactions settled in cash, counterparties are restricted to top-quality financial institutions.

5.3 Liquidity risk

A prudent liquidity management plan involves keeping a sufficient level of liquid assets and securities negotiable on a market, having financial resources through appropriate credit facilities and being able to settle one's positions on the market.

through a cash pooling system set up with its major banks.

5.4 Interest rate risk

The group's interest rate risk arises from long-term debt. Loans initially contracted at floating rates expose the group to the risk of cash flow fluctuating depending on interest rates.

The group manages its interest-rate cash flow risk through floating to fixed-rate swaps. On the economic level, these interest rate swaps convert these floating-rate debt into fixed-rate debt.

Under the interest rate swaps, the group agrees with third parties to swap, according to defined time intervals, the differential between the fixed contractual rates and the variable rates calculated by reference to a certain notional amount.

6. Scope of consolidation

6.1 Change in the scope of consolidation for the period

Details of acquisitions made during the year are provided in the note on "Significant events of the year".

Taking account of the two simplified mergers by way of a full asset and liability transfer which took place during the year, at 31 December 2010 the scope of consolidation included the parent company Medica SA, 137 fully-consolidated companies (107 at 31 December 2009) and 2 companies accounted for by the equity method (1 at 31 December 2009).

6.2 Impact of changes in the scope of consolidation on the financial information for the period

In thousands of euros	**Italy**	**France**	**Total**
ASSETS			
Operating permits	23,762	49,666	73,428
Intangible assets	1	7	8
Property, plant and equipment	7,334	17,602	24,936
Investments in associates	0	2,065	2,065
Other non-current financial assets	96	895	991
Available-for-sale assets	0	0	0
Deferred tax assets	624	684	1,308
Other non-current assets	0	3	3
Non-current assets	**31,817**	**70,922**	**102,739**
Inventories	14	889	904
Trade receivables	3,686	2,102	5,787
Current tax receivables	38	19	57

In thousands of euros	Italy	France	Total
Other receivables	392	3,374	3,766
Other current assets	229	157	386
Cash and cash equivalents	0	0	0
Current assets	**4,359**	**6,540**	**10,899**
LIABILITIES			
Minority interests	**552**	**906**	**1,458**
Long-term debt	5,074	8,723	13,797
Employee benefit obligation	0	249	249
Other long-term provisions	0	661	661
Deferred tax liabilities	6,331	18,227	24,558
Other non-current liabilities	2,742	2,707	5,448
Total non-current liabilities	**14,147**	**30,567**	**44,713**
Short-term debt		378	378
Other short-term provisions	0	230	230
Trade payables	3,601	3,212	6,813
Other payables	779	8,091	8,870
Current taxes	273	1	274
Derivative financial instruments	0	0	0
Other current liabilities	0	0	0
Total current liabilities	**4,654**	**11,912**	**16,566**
NET ASSETS (excluding cash and cash equivalents acquired)	**16,823**	**34,077**	**50,901**
Net goodwill	**2,749**	**7,228**	**9,977**
Cash impact of changes in the scope of consolidation			
Cash and cash equivalents acquired	(1,403)	(3,404)	(4,807)
Cash paid for acquisitions	(17,716)	(36,730)	(54,446)
Sale price of consolidated securities			
Net cash outflow arising on acquisitions	(19,119)	(40,134)	(59,253)
Other cash outflows arising on entries into the scope of consolidation			
Cash impact of changes in the scope of consolidation	(19,119)	(40,134)	(59,253)

6.3 SCOPE OF CONSOLIDATION AT 31 DECEMBER 2010

Consolidated companies	Currency	31/12/2010		
		Method	% control	% interest
Medica	€	FC	Parent	-
SFM (ex-MEDICA)	€	FC	100	100
SCI CHAMBERY JOURCIN	€	FC	100	100
SAS LES JARDINS D'HESTIA	€	FC	99.92	99.92
SOCEFI	€	FC	100	100
SDSA	€	FC	100	100
SARL LE MOLE D'ANGOULINS	€	FC	100	100
SARL INVAMURS	€	FC	100	100
SCI BRUAY SUR ESCAUT	€	FC	100	100
SCI SAINT GEORGES DE DIDONNE	€	FC	100	100
SCI LAXOU	€	FC	51	51
SCI LES SABLES	€	FC	100	100
SCI LYON GERLAND	€	FC	100	100
SCI ST MALO	€	FC	100	100
SCI VILLARS LES DOMBES	€	FC	100	100
SCI DU MANS	€	FC	100	100
SCI D'ARS EN RE	€	FC	100	100
SARL RA DE LILLE STE THERESE	€	FC	100	100
SARL RA DE LAXOU	€	FC	100	100
SARL RA DE SAINT MALO	€	FC	100	100
SARL RA DES SABLES D'OLONNE	€	FC	100	100
SARL RA DE LYON GERLAND	€	FC	100	100
SARL RA DU MANS	€	FC	100	100
SCI DE L'EUROPE	€	FC	100	100
SCI PIERRE DEBOURNOU	€	FC	99.8	99.8
SNC DE DINARD	€	FC	100	100
SNC DE L'EUROPE	€	FC	100	100
SARL SERAPA	€	FC	100	100
SAS RA DE NEUVILLE ST REMY	€	FC	100	100
SAS RA DE DINARD	€	FC	100	100
SARL RESIDENCE DE CHAINTREAUVILLE	€	FC	96	96
SAS CLINIQUE SOLISANA	€	FC	100	100
CLINIQUE DU VAL DE SEINE	€	FC	99.71	99.71
SARL LES ARBELLES	€	FC	100	100

SARL CENTRE MEDICAL DES ALPILLES (CMA)	€	FC	100	100
SARL CENTRE MEDICAL DU VENTOUX (CMV)	€	FC	100	100
LES LILAS	€	FC	100	100
COGOLIN	€	FC	100	100
SARL BEL AIR	€	FC	100	100
MEDICA FRANCE	€	FC	100	100
SARL MF DEVELOPPEMENT	€	FC	100	100
TOPAZE	€	FC	100	100
LES PINS	€	FC	100	100
SCI DE BICHAT	€	FC	100	100
SCI CCN	€	FC	100	100
SCI CMA	€	FC	100	100
SARL GMR LA COTE PAVEE	€	FC	100	100
SAS CHATEAU de MORNAY	€	FC	100	100
AETAS S.P.A.	€	FC	100	100
II FAGGIO Srl	€	FC	100	100
RESIDENZA I PLATANI	€	FC	100	100
I ROVERI Srl	€	FC	100	100
CROCE DI MALTA Srl	€	FC	100	100
Il CASTAGNO Srl	€	FC	90	90
LE PALME Srl	€	FC	100	100
I GIRASOLI Srl	€	FC	95	95
BUTIGLIERA D'ASTI	€	FC	100	100
VILLA ANTEA Srl	€	FC	95	95
GLI OLEANDRI Srl	€	FC	95	95
CARE SERVICE	€	FC	100	100
LE ROSE Srl	€	FC	90	90
I RODODENDRI Srl	€	FC	90	90
IL CILIEGIO Srl	€	FC	70	70
IPPOCRATE SPA	€	FC	95.75	95.75
SAS AUBERGERIE DE QUINCY	€	FC	91.78	91.78
SAS AUBERGERIE DU 3E AGE	€	FC	91.78	91.78
SARL BOURGOIN COUQUIAUD	€	FC	100	100
SARL MAISON BLANCHE	€	FC	100	100
SAS CENTRE MEDICAL MONTJOY	€	FC	100	100
SAS CLINIQUE DE PIETAT	€	FC	100	100
SARL LUBERON SANTE	€	FC	100	100
SA CRF LES GARRIGUES	€	FC	100	100

SAS [illegible]	€	FC	100	100
SCI DU BOIS HAUT	€	FC	100	100
SAS CHATEAU DE CAHUZAC	€	FC	100	100
SARL CRC GESTION	€	FC	100	100
SAS SAINTE COLOMBE	€	FC	100	100
SARL CHAPUIS FERNANDE	€	FC	100	100
SAS MONTROND LES BAINS	€	FC	100	100
SCI VALMAS	€	FC	100	100
SAS ALMA SANTE	€	FC	100	100
SCI ALMA SANTE	€	FC	100	100
SA CLINIQUE SAINT MAURICE	€	FC	100	100
SCI CLINIQUE SAINT MAURICE	€	FC	100	100
SARL CLINIQUE DE SAUSSENS	€	FC	99.99	99.99
SARL MT SANTE	€	FC	99.99	99.99
SARL RESIDENCE LES PINS	€	FC	100	100
SAS LES QUATRE TREFLES	€	FC	99.93	99.93
SAS GASTON DE FOIX	€	FC	100	100
SAS ARJEAN	€	FC	100	100
SAS LE VAL DES CYGNES	€	FC	100	100
SAS DLS GESTION	€	FC	96.67	96.67
SARL MEDICA FRANCE LE VERDON	€	FC	100	100
SAS MAISON DE REPOS ET DE CONVALESCENCE LA PALOUMERE	€	FC	100	100
SCI LA PALOUMERE	€	FC	100	100
SAS FINANCIERE MEDICALE	€	FC	100	100
SAS LA VARENNE	€	FC	100	100
SCI LA VARENNE	€	FC	100	100
SAS LA ROSERAIE	€	FC	100	100
SCI LA ROSERAIE	€	FC	100	100
SAS CENTRE MEDICAL DE CONVALESCENCE MONTVERT	€	FC	100	100
SOCIETE CIVILE IMMOBILIERE DE MONTVERT	€	FC	100	100
MS FRANCE	€	FC	60	60
HAD FRANCE	€	EM	40.32	40.32
SARL B2L	€	FC	100	100
Newly-consolidated companies in 2010				
SAN BEGNINO	€	FC	100	100
MAGNOLIE	€	FC	100	100
SARL FONTAINE BAZEILLE	€	FC	100	100
SCI BAZEILLE	€	FC	100	100

[illegible]	€	FC	100	100
CHARS LES PARENTELES	€	FC	100	100
BEZONS LES PARENTELES	€	FC	100	100
PIERRELAYE LES PARENTELES	€	FC	100	100
PARIS LES PARENTELES	€	FC	100	100
BAGNEUX LES PARENTELES	€	FC	100	100
MAUREPAS LES PARENTELES	€	FC	100	100
DELTA OCCITAN	€	FC	100	100
LES GARDIOLES	€	FC	100	100
LA PAQUERIE	€	FC	100	100
LA COLOMBE	€	FC	100	100
ACANTHE	€	FC	100	100
RESID GESTION	€	FC	100	100
SCI MONTFAVET	€	EM	32.7	32.7
LAETITIA	€	FC	100	100
EOS	€	FC	100	100
MEC	€	FC	100	100
RESIDENZA FORMIGINE	€	FC	75	75
CERTOSA DI PAVIA	€	FC	100	100
SAS JPC CONSULTANT	€	FC	100	100
SA RESIDENCE CLAUDE DEBUSSY	€	FC	100	100
SCI SUO TEMPORE	€	FC	100	100
SAS LE MONT SOLEIL	€	FC	100	100
SAS DOMAINE DES TROIS CHEMINS	€	FC	100	100
SCI LES TROIS CHEMINS	€	FC	100	100
SARL LES OLIVIERS	€	FC	100	100
SCI 146148	€	FC	65.89	65.89
SA MEDIVALYS	€	FC	100	100
SARL DU PRE DE LA GANNE	€	FC	100	100
SARL ACTIRETRAITE-SOULAINES	€	FC	100	100

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Statutory Auditors' Report

on the consolidated financial statements

Year ended 31 December 2010

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders

As statutory auditors to the company, we hereby present our report for the year ended to 31 December 2010 on:

- our audit of the accompanying consolidated financial statements of Medica;
- the justification for our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I - Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. These standards require that we perform such tests and procedures so as to obtain reasonable assurance that the annual financial statements are free from material misstatement. An audit includes examining, on a test basis or any other selective basis, evidence supporting the amounts and disclosures in the annual financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the net assets and liabilities, financial position and results of the consolidated group of companies at 31 December 2010, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Without qualifying our opinion, we draw your attention to note 2.1.2 of the notes to the consolidated financial statements on the IFRSs whose application is mandatory for periods beginning on or after 1 January 2010, and in particular IFRS 3 Revised "Business Combinations", which has been used to account for acquisitions made during the period.

II - Justification for our assessments

As required by the provisions of article L.823-9 of the French Commercial Code (*Code de commerce*) on the justification for our assessments, we hereby inform you that our assessments involved verifying that the accounting principles used are appropriate and that the significant estimates made and overall financial statement presentation are reasonable, particularly with regard to the items described in the following notes:

- Note 2.8 of the notes to the consolidated financial statements which describes the impairment testing methods used for assets with a finite and indefinite useful life (goodwill and operating permits). We assessed the data and assumptions used to determine the recoverable amount of these assets, assessed the reasonableness of the estimates made and verified the method used, as well as the information provided in the note.

- Note 2.9.2 of the notes to the consolidated financial statements which describes the method of measuring financial liabilities. We assessed the data underlying these valuations and reviewed the calculations made by the company.

Our assessments of these matters formed an integral part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to our opinion expressed in the first part of this report

III - Specific verification

We also verified the information provided in the Group's management report in accordance with professional standards applicable in France.

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

Courbevoie, Neuilly and Paris, 31 March 2011

The Statutory Auditors

MAZARS	**CONSTANTIN ASSOCIES**	**Patrick GRIMAUD**
Denis Grison	Jean-Paul Séguret	

Medica SA

39, rue du Gouverneur Général Félix Eboué
Le Diderot
92130 Issy-les-Moulineaux

Statutory financial statements for the year ended 31 December 2010

BALANCE SHEET

ASSETS

Headings	Gross	Depreciation/ amortisation	31/12/2010 (12 months)	31/12/2009 (12 months)
Uncalled subscribed capital				
INTANGIBLE ASSETS				
Start-up costs	1,525,762	508,587	1,017,175	
Development costs				
Concessions, patents and similar rights	334,902	276,755	58,147	123,526
Goodwill				
Other intangible assets				2,390,100
Downpayments on intangible assets				
PROPERTY, PLANT AND EQUIPMENT				
Land				
Buildings				
Plant and equipment				
Other property, plant and equipment	6,441	5,903	538	949
Property, plant and equipment in progress				
Downpayments				
FINANCIAL ASSETS				
Equity-consolidated holdings				
Other holdings	463,234,917		463,234,917	463,234,902
Receivables from holdings				
Other capitalised securities				
Loans	393,428,709		393,428,709	8,171,636
Other financial assets	1,421,936		1,421,936	3,850
NON-CURRENT ASSETS	**859,952,666**	**791,245**	**859,161,421**	**473,924,962**
INVENTORIES AND WORK IN PROGRESS				
Raw materials, supplies				
Work in progress, goods				
Work in progress, services				
Semi-finished and finished products				
Goods held for resale				
Downpayments on orders				
RECEIVABLES				
Loans to customers and receivables	1,683,589		1,683,589	
Other receivables	5,314,956		5,314,956	14,221,984
Subscribed capital called and unpaid				
SUNDRY				
Marketable securities (including treasury shares)	504,431		504,431	
Cash	6,161,822		6,161,822	761,886
ACCRUALS AND PREPAYMENTS				
Prepaid expenses	367,652		367,652	420,411

CURRENT ASSETS	**14,032,450**		**14,032,450**	**15,404,281**
Deferred bond issue expenses	4,434,028		4,434,028	
Bond redemption premiums				
Unrealised currency losses				
GRAND TOTAL	**878,419,144**	**791,245**	**877,627,900**	**489,329,243**

LIABILITIES AND EQUITY

Headings	**31/12/2010 (12 months)**	**31/12/2009 (12 months)**
Share capital or personal capital (of which 18,653,467 paid up)	18,653,467	11,348,478
Additional paid-in capital	500,719,066	
Revaluation surplus (including equity-method valuation difference)		
Legal reserve		
Statutory or contractual reserves		
Regulated reserves (incl. provision for price changes)		
Other reserves (incl. purchase of original artworks)	859,594	26,833,500
Retained earnings		
RESULT FOR THE YEAR (profit or loss)	**(5,075,286)**	**(25,973,906)**
Investment subsidies		
Regulated provisions	9,455,586	7,305,250
SHAREHOLDERS' FUNDS	**524,612,426**	**19,513,322**
Income from the issue of equity loans		
Conditional subsidies		
OTHER EQUITY		
Contingency provisions	12,000	
Loss provisions		
PROVISIONS	**12,000**	
LONG-TERM DEBT		
Convertible bonds		241,917,231
Other bonds		
Bank borrowings	350,209,769	223,676,431
Sundry debt (incl. equity loans)		
Downpayments from clients		
PAYABLES		
Trade payables	654,663	3,398,939
Tax and social liabilities	638,516	281,784
VARIOUS DEBT		
Amounts due to fixed asset suppliers	1,500,525	541,538

ACCRUALS AND PREPAYMENTS		
Prepaid income		
DEBTS	**353,003,474**	**469,815,921**
Unrealised currency gains		
GRAND TOTAL	**877,627,900**	**489,329,243**

Result for the year in cents	**(5,075,285.65)**
Total assets in cents	877,627,899.94

INCOME STATEMENT

Headings	France	Exportation	31/12/10 (12 months)	31/12/2009 (12 months)
Sales of goods				
Sales of manufactured products				
Sales of services	1,407,683		1,407,683	1,191,140
NET SALES	**1,407,683**		**1,407,683**	**1,191,140**
Inventory change				
Capitalised production				
Operating subsidies				
Excess impairments, provisions charged (and depreciation/amortisation), expense transfers			5,548,031	5,495
Other income			0	0
SALES FROM OPERATIONS			**6,955,714**	**1,196,636**
Purchase of goods (incl. customs duties)				
Change in inventory (goods)				
Purchase of raw materials and other supplies (and customs duties)				
Change in inventory (raw materials and supplies)				
Other purchases and external charges			6,961,017	606,783
Taxes			51,132	52,182
Wages and salaries			696,606	590,495
Social security charges			253,465	227,320
OPERATING ALLOCATIONS				
On fixed assets: depreciation and amortisation			1,684,283	67,878
On fixed assets: impairment				
On current assets: impairment				
Additions to provisions			12,000	
Other charges			157,098	1
OPERATING CHARGES			**9,815,602**	**1,544,659**
OPERATING RESULT			**(2,859,888)**	**(348,023)**
JOINT OPERATIONS				
Profit allocated or loss transferred				
Loss incurred or profit transferred				
FINANCIAL INCOME				
Financial income from holdings			8,025,704	3,258,200
Income from other capitalised securities and receivables				
Other interest income			4,001,375	677,873
Impairment and provision reversals and expense transfers				
Foreign exchange gains				
Gains on sales of short-term investments			20,068	
FINANCIAL INCOME			**12,047,147**	**3,936,072**
Amortisation, impairment and financial provisions				
Interest expense			19,846,515	41,767,422
Foreign exchange losses			288	
Losses on sales of short-term investments				
INTEREST AND OTHER FINANCIAL CHARGES			**19,846,803**	**41,767,422**
FINANCIAL RESULT			**(7,799,656)**	**(37,831,350)**

RECURRENT PRE-TAX RESULT	**(10,659,543)**	**(38,179,373)**

INCOME STATEMENT (cont.)

Headings	**31/12/2010 (12 months)**	**31/12/2009 (12 months)**
Exceptional income from operations		1,763
Exceptional income from assets sold and other capital gains	70,161	
Impairment and provision reversals and expense transfers		
EXCEPTIONAL INCOME	**70,161**	**1,763**
Exceptional charges from operations	3,038,939	8,094
Exceptional charges from assets sold and other capital gains	147,878	
Exceptional depreciation/amortisation, impairments and provisions	2,150,336	2,150,336
EXCEPTIONAL CHARGES	**5,337,153**	**2,158,429**
EXCEPTIONAL RESULT	**(5,266,992)**	**(2,156,665)**
Employee profit sharing		
Tax	(10,851,250)	(14,362,132)
TOTAL INCOME	**19,073,022**	**5,134,472**
TOTAL CHARGES	**24,148,308**	**31,108,378**
PROFIT OR LOSS	**(5,075,286)**	**(25,973,906)**

SIGNIFICANT EVENTS OF THE YEAR

Capital increase and IPO

On 24 January 2010, using the authorisation granted at the shareholders meeting of even date, the Board of Directors of the Company agreed on the following proposals:

- To increase the share capital by a maximum of €6,084,219 through an initial public offering for cash of up to 15,625,000 new shares with a par value of €0.38939, without pre-emptive rights;
- To increase the share capital by a maximum of €610,630 through a private placement restricted to Predica and independent directors of the Company;
- To increase the share capital by a maximum of €12,168 through an employee share offering to members of the Group employee savings plan.

On 25 January 2010, the Autorité des Marchés Financiers (AMF) stamped the prospectus prepared by Medica for the public offering on Euronext Paris, under visa no. 10-015.

The final terms and conditions of the various offerings were set by the Board of Directors on 9 February 2010. The price was set by the Board at €13 per share.

All the shares of the Company were admitted for trading on compartment B of Euronext Paris on 10 February 2010 for settlement and delivery on 12 February 2010

The IPO led to the recognition of additional paid-in capital of €500,719,066, after deduction of related expenses (€18,173,105) and income tax (€6,057,102).

Restructuring of the syndicated loan

Concurrently with the IPO on Euronext Paris, Medica repaid its mezzanine debt in full.

On 16 June 2010, Medica obtained a new €350 million loan to refinance its existing debt, as well as a €100 million revolving loan facility.

Liquidity contract

Medica entered into a liquidity contract in 2010. At 31 December 2010, it held 103,820 treasury shares under the contract with a value of €1.4 million.

Post balance sheet events

On 5 January 2011, Medica unwound its hedge with RBS in exchange for the payment of a cash balance of €4,735,000.

RULES AND ACCOUNTING METHODOLOGY

General principles

The general accounting conventions were applied with due respect to the principle of prudence, in accordance with the basic assumptions: continuity, maintenance of accounting methodologies from one year to the next, independence of financial periods.

The annual accounts were established in accordance with the Commercial Code, the Accounting Decree of 29 November 1983 and the ruling of the Accounting Regulation Committee (CRC) 99-03 of 29 April 1999 relating to the rewriting of the General Accounting Plan.

The basic method used to value items booked in the accounts is the historical cost method.

Presentation of annual accounts and valuation methods used

The rules and accounting methods used are identical to those used for the previous year.

Securities acquisition expenses

The tax regulation introduced in 2006 (possibility of deducting expenses on acquisitions of securities capitalised for five years), and a desire to standardise accounting rules methods between the company and the group, led the company to capitalise these expenses in 2006 by incorporating them into the cost of the acquisition. The expenses are subject to special amortisation over five years.

For the 2010 financial year, a special amortisation of around €2.1 million was booked and the value remaining to be amortised at 31/12/2010 was €1.3 million.

Intangible assets

Following the IPO on 10 February 2010, IPO expenses in the sum of €1.5 million were capitalised as an intangible asset under the heading "Share issue expenses", to be amortised over a period of three years. The amortisation expense in 2010 amounted to €0.5 million.

Software is amortised over a period of three to five years.

Property, plant and equipment

Tangible assets are valued at their purchase cost.

Depreciation is calculated by the linear method, according to the probable useful life of the assets.

Financial assets

Equity interests are measured at cost or contribution value. Contractual contingent consideration agreements are recognised when it is probable that the contingent consideration will be payable and its amount can be reliably estimated.

An impairment loss is recognised when the recoverable amount is lower than the carrying amount. The recoverable amount is determined by discounting the future cash flows that are expected to be generated by continuing use of the assets tested, less the debt of the relevant subsidiaries. Discounting is carried out at a rate corresponding to the average weighted cost of capital.

This method uses estimates, assumptions or assessments based on forecast information and on circumstances existing at the time the financial statements are prepared. These estimates may differ from actual results due to uncertainty with regard to future trends in the economic environment.

Treasury shares are recognised as an asset in the balance sheet. Gains and losses on purchases and sales of treasury shares are recognised in exceptional income and expense.

Receivables and payables

Receivables and payables are valued at nominal value.

Where applicable, receivables are written down to allow for non-recovery risks.

Loan transaction costs

Expenses of €5,543 thousand relating to the Company's refinancing transaction have been capitalised and are deferred over the life of the loan, i.e. five years. The amortisation expense in 2010 was €1,109 thousand.

Marketable securities

Marketable securities and similar assets are booked at their acquisition cost. A writedown provision is booked when the acquisition value is greater than the market value.

Bonds

The Company made a bond issue in 2006 convertible into 10,925,873 shares. The bonds were converted in full at the time of the IPO on 10 February 2010.

Interest for the period from 1 January to 10 February 2010 amounted to €2.7 million. At the time of conversion, therefore, capitalised interest amounted to €69.8 million.

Revenue

Revenue derives from the re-billing of routine operating costs incurred by Medica SA as the operational holding company, plus a 5% margin, under a technical assistance agreement entered into by Medica SA and Medica France SA on 9 August 2006.

The administrative and operational support provided by Medica SA includes strategy setting, business development coordination, communications, key accounting and financial guidelines, banking relations, marketing development, acquisitions, business management and coordinating the recruitment of key personnel.

Operating charges

Operating charges mainly comprise expenses related to the technical assistance contract, financial and market communication expenses, and payroll costs for Medica employees.

Exceptional income or expense

Exceptional income includes the revenue and charges resulting from activities or events clearly distinct from the ordinary activities of the company, and which are therefore not supposed to occur either frequently or regularly.

In 2010, exceptional items mainly comprised certain refinancing costs (€3 million) and accelerated tax depreciation on security acquisition expenses (€2.1 million).

Other information

Group tax relief

Medica SA and its subsidiaries elected for group tax relief on 1 January 2007. As the head of the tax group, Medica SA pays the annual tax due by all tax group entities in accordance with article 223 A and 223 L, 6-d of the French General Tax Code. The tax group includes all companies which fall within the scope of consolidation of the parent company SFM, as well as other Group companies that are eligible for group tax relief.

Election for group tax relief must not advantage or disadvantage the subsidiaries and the agreements have been drawn up in such a way that each subsidiary is in the same position as if it were taxed separately.

Consequently, any resulting tax savings are not allocated to members of the tax group.

Given the Group's losses and the non-reallocation of tax savings, Medica SA recognised a tax benefit of €16.9 million in 2010.

Deferred taxes

The tax group had tax loss carryforwards of €70.7 million and interest carryforwards of €11.6 million at 31 December 2010, which will reduce the future income tax expense.

Employee benefit obligation

The group has a legal obligation to pay its employees termination benefits when they retire. As a result, the group has long-term liabilities under a defined-benefit pension plan as defined by IAS 19, since the plan defines the amount of the pension benefit that will be collected by an employee who retires. In general, this amount depends on one or more factors, such as age, length of service and salary.

The total of such retirement benefits is shown as an off-balance sheet commitment.

The liability calculated corresponds to the discounted value of the obligation linked to the defined-benefit plans at year-end as well as the adjustments for actuarial gains and losses and unrecognised past service costs. The impacts of the pension reform passed in 2010 delaying the statutory retirement age have been recognised in actuarial gains or losses.

The obligation under defined-benefit plans is calculated each year by independent actuaries according to the projected unit credit method. The discounted value of the obligation under the defined-benefit plan is determined by discounting the estimated future cash outflows based on the interest rate of top-quality corporate bonds and whose term is close to the estimated average term of the pension liability concerned.

Actuarial gains and losses stemming from experience adjustments and adjustments of actuarial assumptions, exceeding 10% of the discounted value of the obligation under the defined-benefit plans (corridor method), are ascertained from the liability calculated.

In addition, the company pays contributions to public or private pension insurance plans on a mandatory basis. Once the contributions are paid, the company is not bound by any other payment requirements. The contributions are recognised as an employee benefits expense when they are due. Contributions paid in advance are recognised as an asset insofar as the payment of an advance results in reducing future payments or a cash refund.

Hedging instruments

Medica's financial liabilities are mainly floating rate and the Company therefore uses derivative financial instruments to hedge against changes in interest rates.

The Company unwound some of its old swaps concurrently with its refinancing operations in June 2010 and combined the remainder into a single swap which had a fair value of €(4.7) million at the year-end.

In July 2010, the Company purchased two new deferred start swaps of €100 million and €250 million with a forward start date of 3 January 2011 and a maturity of 31 December 2013 and 30 June 2014 respectively.

They qualify for hedge accounting and their fair value was €1.4 million at the year end.

Bank covenant

The new bank loan contains a financial covenant and other customary covenants. In the event of non-compliance with one or more conditions, the banks may force the Group to repay some or all of the loan or renegotiate the financing conditions.

The financial ratio (net debt to EBITDA) is tested half-yearly.

The Company complied with the ratio at 31 December 2010.

Financial risk management

Credit risk

For derivative instruments and transactions settled in cash, counterparties are restricted to top-quality financial institutions.

Interest rate risk

The Company's interest rate risk arises from its long-term loan. The loan, which was originally a floating-rate liability, exposes the group to the risk of fluctuations in interest rates.

The Company manages its interest-rate cash flow risk through floating to fixed-rate swaps. On the economic level, these interest rate swaps convert these floating-rate loans into fixed-rate loans.

Under the interest rate swaps, the Company agrees with third parties to swap, according to defined time intervals, the differential between the fixed contractual rates and the variable rates calculated by reference to a certain notional amount.

Liquidity risk

The Company maintains financial flexibility through available but unused credit facilities.

BREAKDOWN OF NON-CURRENT ASSETS

Headings	Start of year	Acquisitions	Disposals	Other flows	End of year
Start-up costs, research and development		1,525,762			1,525,762
TOTAL I		**1,525,762**			**1,525,762**
Other intangible assets	2,723,602	7,706,995		10,095,695	334,902
TOTAL II	**2,723,602**	**7,706,995**		**10,095,695**	**334,902**
Land					
Buildings on own property					
Leasehold improvements					
Buildings: general installations and improvements					
Technical installations, equipment and industrial plant					
General installations, improvements					
Transport equipment					
Office/IT equipment and furniture	6,441				6,441
Reusable containers and sundry					
Assets in progress					
Downpayments					
TOTAL III	**6,441**				**6,441**
Holdings valued by the equity method					
Other holdings	463,234,902	15			463,234,917
Other capitalised securities					
Loans and other financial assets	8,175,486	402,219,189	15,544,031		394,850,644
TOTAL IV	**471,410,388**	**402,219,204**	**15,544,031**	**10,095,695**	**858,085,561**
GRAND TOTAL	**474,140,431**	**411,451,961**	**15,544,031**	**10,095,695**	**859,952,666**

Start-up costs comprise the IPO expenses incurred in February 2010.

The increase in loans and other financial assets stems from loans made by Medica to its subsidiaries, Médica France and SFM, enabling them to repay their bank loans in June 2010.

BREAKDOWN OF DEPRECIATION AND AMORTISATION

Headings	Start of year	Other flows	Additions	Disposals	End of year
Start-up costs, research and development			508,587		508,587
TOTAL I			**508,587**		**508,587**
Other intangible assets	209,976		66,779		276,755
TOTAL II	**209,976**		**66,779**		**276,755**
Land					
Buildings on own property					
Leasehold improvements					
Buildings: general installations and improvements					
Technical installations, equipment and industrial plant					
General installations, improvements					
Transport equipment					
Office/IT equipment and furniture	5,492		410		5,903
Reusable containers and sundry					
Assets in progress					
Downpayments					
TOTAL III	**5,492**		410		**5,903**
Holdings valued by the equity method					
Other holdings					
Other capitalised securities					
Loans and other financial assets					
TOTAL IV					
GRAND TOTAL	**215,468**		**575,776**		**791,245**

BREAKDOWN OF PROVISIONS

Headings	Start of year	Additions	Writebacks	End of year
Mine and oilfield provisions				
Provisions for investment				
Provisions for rising prices				
Special depreciation/amortisation	7,305,250	2,150,336		9,455,586
Including exceptional increase of 30%				
Foreign establishments before 01/01/92				
Foreign establishments after 01/01/92				
Provisions for installation loans				
Other regulated provisions				
REGULATED PROVISIONS	**7,305,250**	**2,150,336**		**9,455,586**
Lawsuit provisions				
Warranty provisions				
Provisions for futures market losses				
Provisions for foreign exchange losses				
Provisions for pensions and similar				
Provisions for taxes due		12,000		12,000
Provisions for renewal of fixed assets				
Provisions for major repairs				
Accrued employment taxes on unpaid leave				
Other contingency provisions				
CONTINGENCY PROVISIONS		**12,000**		**12,000**
Provisions for losses on intangible assets				
Provisions for losses on tangible assets				
Provisions for losses on equity affiliates				
Provisions for losses on long-term shareholdings				
Provisions for other financial assets				
Provisions for inventory losses				
Provisions for bad debts				
Other loss provisions				
LOSS PROVISIONS				
GRAND TOTAL	**7,305,250**	**2,162,336**		**9,467,586**

RECEIVABLES AND PAYABLES

STATEMENT OF RECEIVABLES	Gross amount	Less than 1 year	More than 1 year
Receivables from controlled entities			
Loans	393,428,709		393,428,709
Other financial assets	1,421,936		1,421,936
Bad debts or litigious clients			
Other accounts receivable	1,683,589	1,683,589	
Receivables representing loaned stock			
Personnel and related accounts			
Social security and other welfare organisations	8,350	8,350	
Government & other government agencies: tax on net income	95,839	95,839	
Government & other government agencies: value added tax	1,552,989	1,552,989	
Government & other government agencies: taxes and duties			
Government & other government agencies: various receivables			
Group and associates	3,657,778	3,657,778	
Debtors			
Prepaid expenses	367,652	367,652	
GRAND TOTAL	**402,216,841**	**7,366,197**	**394,850,644**
Total loans granted during the year	395,483,926		
Total repayments obtained during the year	10,226,853		
Loans and advances to shareholders			

STATEMENT OF PAYABLES	Gross amount	Less than 1 year	1 to 5 years	More than 5 years
Convertible bonds				
Other bonds				
Debt originally due within 1 year	2,025	2,025		
Debt originally due after 1 year	350,207,744	207,744	350,000,000	
Various debts and liabilities				
Trade payables	654,663	654,663		
Personnel and related accounts	200,071	200,071		
Social security and other welfare organisations	151,033	151,033		
Government: tax on net income				
Government: value added tax	275,907	275,907		
Government: secured bonds				
Government: other taxes and duties	11,505	11,505		
Amounts due to fixed asset suppliers				
Group and shareholders	1,129,460	1,129,460		
Other current liabilities	371,065	371,065		

Prepaid income				
GRAND TOTAL	**353,003,474**	**3,003,474**	**350,000,000**	
Debt taken out during the year	353,838,637			
Debt repaid during the year	224,564,984			
Borrowings contracted from shareholders				

AKDOWN OF PREPAID EXPENSES AND INCOME

	31/12/2010
PREPAID EXPENSES	367,652
OPERATING EXPENSES	367,652
486 1000 Prepaid expenses	367,652
TOTAL PREPAID EXPENSES	**367,652**

BREAKDOWN OF ACCRUED INCOME

	31/12/2010
ACCRUED INCOME	9,407,359
OTHER FINANCIAL ASSETS	7,723,771
2768864 Accrued interest on Medica France loan	1,560,680
2768866 Accrued interest on SFM loan	6,163,091
TRADE RECEIVABLES	1,683,589
4181864 Medica France invoice not yet issued	1,683,589
TOTAL ACCRUED INCOME	**9,407,359**

BREAKDOWN OF ACCRUED EXPENSES

	31/12/2010
ACCRUED EXPENSES	1,279,954
BORROWINGS AND FINANCIAL LIABILITIES	207,744
1688400 Accrued interest on cash loan	207,744
TRADE PAYABLES	416,868
4081000 External invoices not yet received	384,753
4081001 Intragroup invoices not yet received	13,457
4081864 SA Medica France Invoices not yet received	18,658
TAX AND SOCIAL LIABILITIES	282,252
4286000 Accrued employee benefits liabilities	200,000
4386000 Other liabilities	80,000
4386100 "Organic" social security contribution	2,252
OTHER LIABILITIES	371,065
4686000 Accrued expenses	371,065
ACCRUED INTEREST ON OVERDRAFT	2,025
5186000 Accrued interest payable	2,025

TOTAL ACCRUED EXPENSES	**1,279,954**

COMPOSITION OF SHARE CAPITAL

Share category	Number of shares			Par value
	At year-end	Created during year	Redeemed during year	
Ordinary shares	47,904,187	46,080,886		0.39

CHANGE IN SHAREHOLDERS' FUNDS

Position at start of year		Balance
Shareholders' funds before payout on prior period profits		19,513,322
Shareholders' funds after payout on prior period profits		19,513,322
Change during the year	Downward	Upward
Change in capital	5,826,586	13,131,575
Change in unavailable reserves	25,973,906	
Change in retained earnings		25,973,906
Change in additional paid-in capital		500,719,066
Change in regulated subsidies and provisions		2,150,336
Profit for the year	5,075,286	
BALANCE		**505,099,105**
Position at year-end		Balance
Shareholders' funds before appropriation		524,612,426

LIST OF SUBSIDIARIES AND SHAREHOLDINGS

Name	Share capital	% interest	Share of shareholders' funds before profit	Gross value of securities	Net value of securities	Sales	Profit for the year	Loans	Dividends received
SUBSIDIA-RIES									
SFM	8,000,000	100 %	3,970,250	463,234,902	463,234,902		(22,727,839)	292,494,041	

The method for valuing financial assets is detailed in our "accounting rules and methods" note".

The loan is an intragroup loan of €292 million made to SFM in order to repay its various bank loans.

The amount at 31 December 2010 comprised a principal amount outstanding of €286.3 million and accrued interest of €6.2 million.

EXPENSE TRANSFER

Nature of transfer	Amount	Allocation to account
Benefits in kind	5,495	7912010
Loan transaction costs	5,542,535	7911000
TOTAL	**5,548,030**	

FINANCIAL RESULT

Nature of expense	31/12/2010	31/12/2009
Interest on loans outside the group	10,454,105	36,222,947
Interest on group current accounts	102	18
Bank interest	436,343	600
Financial charges relating to rate hedging insurance	8,568,691	5,543,858
Non-utilisation fee	387,561	
TOTAL	**19,846,802**	**41,767,423**

Nature of income	31/12/2010	31/12/2009
Financial income from controlled entities	8,025,704	3,258,200
Financial income relating to rate hedging insurance	4,001,375	677,873
Proceeds from disposals of marketable securities	20,068	
TOTAL	**12,047,147**	**3,936,073**

Financial result	**(7,799,656)**	**(37,831,350)**

EXCEPTIONAL INCOME AND EXPENSES

Nature of expense	Amount	Allocation to account
Debt refinancing expenses	3,038,939	6718000
Loss on purchase of treasury shares	147,878	6783000
Accelerated tax depreciation and amortisation	2,150,336	6872500
TOTAL	**5,337,153**	

Nature of income	Amount	Allocation to account
Gain on purchase of treasury shares	70,161	7783000
TOTAL	**70,161**	

FIVE-YEAR FINANCIAL HIGHLIGHTS

Period	**31/12/2010 12 months**	**31/12/2009 12 months**	**31/12/2008 12 months**	**31/12/2007 20 months**	**30/04/2006 4 months**
FINANCIAL POSITION AT YEAR END					
Share capital	18,653,467	11,348,478	116,576,640	116,576,640	44,640
Number of shares issued	47,904,187	7,286,040	7,286,040	7,286,040	2,790
OPERATIONS AND RESULTS					
Revenue exclusive of taxes	1,407,683	1,191,140	1,330,001	1,749,114	
Profit / (loss) before tax, profit sharing, amortisation and provisions	-12,079,917	-38,117,826	-35,857,205	-59,196,756	-3,113
Tax on profit	-10,851,250	-14,362,132	-12,055,092	-9,890,225	
Amortisation and provisions	3,846,619	2,218,213	208,155	5,089,170	609
Net profit	-5,075,286	-25,973,906	-24,010,268	-54,395,701	-3,722
RESULTS PER SHARE					
Profit / (loss) after tax, profit sharing but before amortisation and provisions	-0.03	-3.26	-3.27	-6.77	-1.12
Profit / (loss) after tax, profit sharing, amortisation and provisions	-0.11	-3.56	-3.30	-7.47	-1.33

EMPLOYEES

Average number of employees	2	2	2	2
Total payroll	696,606	590,495	590,495	957,642
Sums paid in the form of employee benefits (social security, employee welfare)	253,465	227,320	224,355	371,346

FINANCIAL COMMITMENTS, OTHER INFORMATION,

INFORMATION ON RELATED COMPANIES

Headings	31/12/2010	31/12/2009
ASSETS		
Equity interests	463,234,917	436,234,902
Other financial assets	393,432,574	8,175,486
Trade receivables		
Other operating receivables (current accounts)	5,341,367	13,325,438
LIABILITIES		
Advances and loans from subsidiaries		
Trade payables	18,658	247,883
Other borrowings		
Other operating payables (current account)	1,127,460	539,396
INCOME STATEMENT		
Operating income	1,407,683	1,191,140
Operating expense	15,405	15,619
Financial income	8,025,704	3,258,200
Financial expense	102	18

OFF-BALANCE SHEET FINANCIAL COMMITMENTS

Debt secured by collateral

The new loans obtained during the year are secured by a charge over SFM shares in an amount of €450 million.

The Company has also given a guarantee in the sum of €130 million to the leasing companies involved in the sale and leaseback arrangement entered in on 19 December 2010.

Commitments given	31/12/2010	31/12/2009
Pension commitment calculated according to the projected unit credit method as defined by IAS 19	81,134	73,538
Commitment relating to interest rate hedging contracts: See note 3.4 for details.		

Commitments received	31/12/2010	31/12/2009
NONE		

DIRECTORS' AND OFFICERS' REMUNERATION

Headings	Total	Body		
		Board of Directors	Manage-ment	Supervisory Board
Financial commitments				
Pension commitments	81,134		81,134	
Directors' fees	157,098	157,098		
Remuneration	635,595		635,595	
Loan terms granted during the year:				
Repayments made during the year:				

AVERAGE HEADCOUNT

Headcount	31/12/2010	31/12/2009
Managers	2	2
TOTAL	**2**	**2**

IDENTITY OF PARENT COMPANIES CONSOLIDATING THE COMPANY'S ACCOUNTS

Corporate name and head office	Legal form	Amount of capital	% interest
SA Medica Le Diderot 39, rue du Gouverneur Général Félix Eboué 92130 Issy-les-Moulineaux	S.A.	18,653,467	

MAZARS

61, rue Henri Regnault
92400 Courbevoie

CONSTANTIN ASSOCIES
Member of Deloitte Touche Tohmatsu
185, avenue Charles de Gaulle
92200 Neuilly sur Seine

Patrick GRIMAUD

17, rue du Sergent
Bauchat
75012 Paris

Medica

Société anonyme

39, rue du Gouverneur Général Félix Eboué

92130 Issy-les-Moulineaux

Statutory Auditors' Report

on the statutory financial statements

Year ended 31 December 2010

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the statutory financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the statutory financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the statutory financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders

As statutory auditors to the company, we present our report for the year to 31 December 2010 on:

- our audit of the accompanying statutory financial statements of Medica SA;
- the justification for our assessments;
- the specific reviews and information required by law.

The statutory financial statements were prepared by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the statutory financial statements

We conducted our audit in accordance with the professional standards applicable in France. These standards require that we perform such tests and procedures so as to obtain reasonable assurance that the statutory financial statements are free from material misstatement. An audit includes examining, on a test basis or other selective basis, evidence supporting the amounts and disclosures in the statutory financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statutory financial statement present fairly in all material respects the Company's assets and liabilities, financial position and results of operations for the year ended 31 December 2010 in accordance with French generally accepted accounting principles.

II. Justification of our assessments

As required by the provisions of article L.823-9 of the French Commercial Code (*Code de commerce*) on the justification for our assessments, we hereby inform you that our assessments involved verifying that the accounting principles used are appropriate and that the significant estimates made and the overall financial statement presentation are reasonable, particularly with regard to the method of measuring and impairing equity interests as described in note 2.4 to the statutory financial statements on financial assets.

Our assessments of these matters formed an integral part of our audit of the statutory financial statements taken as a whole, and therefore contributed to our opinion expressed in the first part of this report

III. Specific reviews and information

We have also carried out the specific reviews required by law in accordance with the professional standards applicable in France.

We have no matters to report as to the fair presentation and consistency with the statutory financial statements of the information given in the management report by the Board of Directors and provided in the documents addressed to shareholders regarding the Company's financial position and financial statements.

Regarding information provided in accordance with article L.225-102-1 of the French Commercial Code (*Code de commerce*) relating to the remuneration and benefits paid to company officers and undertakings made in their favour, we have checked their consistency with the financial statements or with the data used to prepare the financial statements and, where appropriate, with information collected by your company from companies that control it or are controlled by it. On the basis of this assessment we can confirm the accuracy and fair presentation of this information.

In accordance with the law, we have satisfied ourselves that necessary information regarding the identity of owners of the company's share capital and voting rights have been communicated to you in the management report.

Courbevoie, Neuilly and Paris, 31 March 2011

The Statutory Auditors

MAZARS	**CONSTANTIN ASSOCIES**	**Patrick GRIMAUD**
Denis Grison	Jean-Paul Séguret	

Annexes

Annex 1: Report of the Chairman of the Board of Directors

Société anonyme with a share capital of €18,653,466.50

39, rue du Gouverneur Général Félix Eboué
92130 Issy-les-Moulineaux

421 896 408 RCS NANTERRRE

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

ON THE CONDITIONS FOR THE PREPARATION AND ORGANISATION OF THE WORK OF THE BOARD OF DIRECTORS AND ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES ADOPTED BY THE COMPANY

(ARTICLE L.225-37 OF THE FRENCH COMMERCIAL CODE)

Ladies and Gentlemen,

As required by the French Commercial Code, in addition to the management report prepared by our Board of Directors, we review, in this special report, the conditions for the preparation and organisation of the work of the Board of Directors, the internal control and risk management procedures adopted by the Company and any restrictions on the powers of the Chief Executive Officer imposed by the Board of Directors.

As regards corporate governance, the Company has adopted as its reference code the Corporate Governance Code for Small and Mid Caps published by MiddleNext in December 2009 (the "Reference Code"), which is available on the MiddleNext website. The Company has acquainted itself with the Code's provisions on "Vigilance Points" and keeps a copy at its registered office available at all times to members of its governing bodies.

As regards internal control and risk management, this report describes the internal control measures in place at the time of writing, which are largely based on the Internal Control Framework: Implementation Guide for Small and Mid Caps, published by the Autorité des Marchés Financiers (**AMF**) on 22 January 2010.

I. Conditions for the preparation and organisation of the work of the Board of Directors and corporate governance rules

Medica ("the Company"), became a *société anonyme* with a Board of Directors at its Extraordinary General Meeting on 9 November 2009. Its shares have been traded on Compartment B of Euronext Paris since 10 February 2010.

1.1 *The Board of Directors and its Committees*

1. The Board of Directors

(a) Composition of the Board of Directors:

The Board of Directors has at least three and no more than eighteen members, appointed by ordinary resolution of the shareholders.

At least one third of the Board members must be independent directors.

Jacques Bailet has been Chairman of the Board of Directors since 9 November 2009. He was also Chairman of the Company in its form as *Société par Actions Simplifiée* from 9 August 2006.

On the date of this report, the Board of Directors had seven members, three of whom are independent within the meaning of the Reference Code and have no material financial, contractual or family relationships with the Group which might influence their freedom of judgment.

The composition of the Board of Directors is as follows:

Name	Age	Position	Date of appointment	Date of expiry of term
Jacques Bailet	**59**	**Chairman**	**9/11/2009**	**At the close of the annual general meeting held to approve the financial statements for the year ending 31 December 2012**
André François-Poncet	**57**	**Director**	**9/11/2009**	
Jean-Baptiste Wautier	**41**	**Director**	**9/11/2009**	
Denis Villafranca	**38**	**Director**	**9/11/2009**	
Catherine Soubie	**45**	**Independent director**	**12/02/2010**	
Gilles Cojan	**56**	**Independent director**	**12/02/2010**	
Guy de Panafieu	**67**	**Independent director**	**12/02/2010**	

In accordance with the Board's Internal Rules and Procedures, directors must each hold and undertake always to hold at least 1,300 shares of the Company in registered form.

The Company's Articles of Association define and determine the composition of the Board of Directors as follows:

The term of a director named to replace another director runs solely for the remaining duration of his/her predecessor's term of office.

Every incumbent director is eligible for re-appointment. By derogation of the above requirements, the number of individuals appointed as directors and permanent representatives of legal entities aged over 70 may not exceed one-third of directors currently appointed.

In accepting and carrying out their mandate each Director undertakes to confirm in writing that at all times they satisfy the conditions and requirements of applicable legislation, particularly as far as the accumulation of mandates is concerned.

Internal regulations state that Directors must be chosen by virtue of their competence, the diversity of their experience, their desire to be involved in the definition and implementation of the Company's strategy and that of its subsidiaries and for the contribution they can make to the work of the Board of Directors.

An employee of the Company may only be appointed as a Director if their contract represents an effective contract of employment. The number of Directors related to the Company by a contract of employment may not exceed one third of the Directors in post.

(b) Duration and accumulation of mandates:

In order to comply with the Reference Code, and for the purposes of protecting the independence of Directors, the term of the mandates of Directors has been set at three (3) years to expire at the close of the Ordinary Annual General Meeting of shareholders called to approve accounts for the previous year and taking place in the year in which the mandate expires.

(c) Convocation and conduct of Board of Directors meetings:

In accordance with the law and the Company's internal regulations, Directors may be convened at any time to meetings of the Board of Directors by any means including orally by the Chairman or by any other person acting on his behalf that he designates.

Meetings of the Board of Directors may be held at the registered office or at any other place in France or abroad indicated in the notice of the meeting.

In the event that the Chairman is unable to or fails to convene a meeting, the Board of Directors may be convened by directors representing at least one-quarter of the members of the board of directors.

The Chairman may authorise participation in the proceedings of the meeting by means of a conference call or videoconferencing (except for the verification of the audit of the annual and consolidated financial statements); videoconferencing and conference call facilities must meet technical criteria ensuring the identification of the Directors concerned and their effective participation in the meeting of the Board of Directors, which must be transmitted continuously, as well as the confidentiality of proceedings.

Since 12 February 2010, the date of the Company's initial public offering on Euronext Paris, the Board of Directors has met seven times with an attendance rate of 98%. The frequency of Board meetings is in line with the Reference Code, which recommends four meetings a year.

(d) Conditions for the preparation of the work of the Board of Directors

To allow members of the Board of Directors to prepare effectively for its meetings, the Chairman undertakes to provide all necessary information and documentation. All directors therefore receive background documents on agenda items before the meeting. They also receive a copy of all press releases published by the Company.

(e) Internal regulations of the Board of Directors

In order to comply with the principles of corporate governance as set out in the appropriate recommendations, the Board of Directors adopted its Internal Regulations at its meeting of 12 February 2010.

The purpose of these regulations is to complement statutory requirements by determining the composition, organisation and operation of the Board of Directors and of its committees and setting out the rights and duties of Directors.

Most notably, it includes rules on the following topics:

- the requirement for the Board to include at least one third of Independent Directors;
- limitations on the powers of the Chief Executive Officer;
- the requirement to declare any conflict of interest and to abstain from voting where such conflict exists;
- respect for the rules of independence, ethics and integrity by each Director;
- declaration of any transaction in the Company's share by a Director.

(f) Assessment of Board practices and procedures

At its last meeting in 2010, the Board of Directors discussed the annual assessment of Board practices and procedures. The Board agreed to delegate responsibility for the assessment to the Compensation and Appointments Committee.

Based on a self-assessment grid prepared by the Compensation and Appointments Committee, the Board of Directors carried out its self-assessment on 28 March 2011. The executive officers were not present. The assessment covered three key areas:

- Organisation and competence of the Board;
- Composition of the Board and adequacy for its purpose;
- Working method and procedure for providing the directors with background information;

Discussions revealed that the directors are satisfied with the Board's practices and procedures and consider that it operates in the best interests of the Company. Although there are still areas for improvement, the directors consider that the frequency and length of Board meetings are appropriate and that the issues are addressed in depth.

2. Organisation and operation of specialist committees

The Board of Directors may form committees, of which it determines the members and remit and which perform their activities under its authority. The role of these committees is to assist the Board of Directors with its duties. On 29 March 2010, the Board of Directors created an Audit Committee and a Compensation and Appointments Committee.

Ad hoc committees

In addition to the permanent committees, the Board may at any time create one or more temporary or permanent committees, notably to deal with conflicts of interest. The Board determines the composition and remit of these committees.

1.2 *Limitations on the powers of the Chief Executive Officer*

In accordance with the provisions of the applicable regulations, the Chief Executive Officer has the broadest powers to act in the name of the Company under all circumstances. He exercises these powers within the limits of the Company's corporate purpose and subject to the powers that the law explicitly grants to general meetings of the shareholders and the Board of Directors.

However, the Internal Regulations of the Board of Directors set out the items that must be submitted to the Board for prior approval, as follows:

- the annual budget;
- any decision requiring prior approval from creditors or, failing such prior approval, that would create or would be likely to create a claim for early repayment; and
- any acquisition or disposal for an amount of 20 million euros or greater.

1.3 *Principles and rules determining directors' remuneration*

(a) Total amount of directors' fees approved by the General Meeting

Members of the Board of Directors may receive a fixed sum in directors' fees per year, the amount of which is determined by the General Meeting and remains in force until adoption of a new resolution. At the General Meeting of 29 June 2010, the total amount of annual directors' fees was set at €250,000.

(b) Allocation of directors' fees by the Board

The total amount of directors' fees approved by the General Meeting is allocated by the Board of Directors on the basis of proposals and advice from the Compensation and Appointments Committee, in accordance with the following provisions:

- a fixed amount is allocated to each director;
- a variable amount is paid as a function of attendance at Board meetings and, where applicable, Committee meetings;
- an additional sum is also allocated to the Chairman of each special committee.

Jacques Bailet, Chairman of Board of Directors, waived his directors' fees.

André François-Poncet waived his directors' fee in respect of his position as Chairman of the Compensation and Appointments Committee.

The total amount of directors' fees paid in 2010 was €157,100.

Any member of the Board of Directors may also receive a fixed fee in consideration of their specific experience or particular tasks for which they are designated.

(c) Compensation of executive officers

It should be noted that Jacques Bailet – an employee of the Company since joining the Medica group and Chairman and Chief Executive Officer of the Company following the Company's recent change of status to *société anonyme* with a Board of Directors – initially retained his employment contract with the Company. However, this contract was suspended on 10 February 2010 for the duration of his term of office, without calling into question the aims of the Reference Code, namely the protection of the Company's interests.

(d) Compensation and Appointments Committee

The Committee has three members including at least one independent director. It meets at least twice a year and, in any event, before the approval of the agenda for the annual general meeting to review the proposed resolutions falling within the scope of its remit.

Member of the committee are:

- André François-Poncet, Chairman (director);
- Guy de Panafieu (independent director);
- Denis Villafranca (director).

The Committee is responsible for reviewing candidates for appointment to senior management positions and to the Board of Directors, determining and monitoring executive compensation and the grant of stock options and stock awards to employees and executive officers of the Group, as well as setting up employee share ownership plans.

The Committee met twice in 2010 with a 100% attendance rate. The main issues addressed were executive compensation and allocation of directors' fees.

II. Internal control and risk management procedures

The risk management and internal control systems contribute to the control over the company's operations.

Senior management is responsible for defining the internal control system based on rules of conduct and integrity. It oversees the system on an ongoing basis and initiates any remedial actions that prove necessary.

Risk management is the responsibility of everyone in the Company. It is a dynamic system, defined and implemented under the Company's responsibility. Risk management comprises a set of resources, behaviours, procedures and actions adapted to the Company's specific characteristics.

A. Definition and aims of the Medica Group regarding internal control

The internal control rules are defined by senior management and are designed to provide reasonable assurance that internal control systems exist within its subsidiaries. However, internal control cannot provide absolute assurance that all risks have been completely eliminated or that the Company's objectives will be attained.

The internal control system is largely based on the Internal Control Reference Framework: Implementation Guide for Small and Mid Caps, published by the AMF on 22 July 2010. It aims to ensure that:

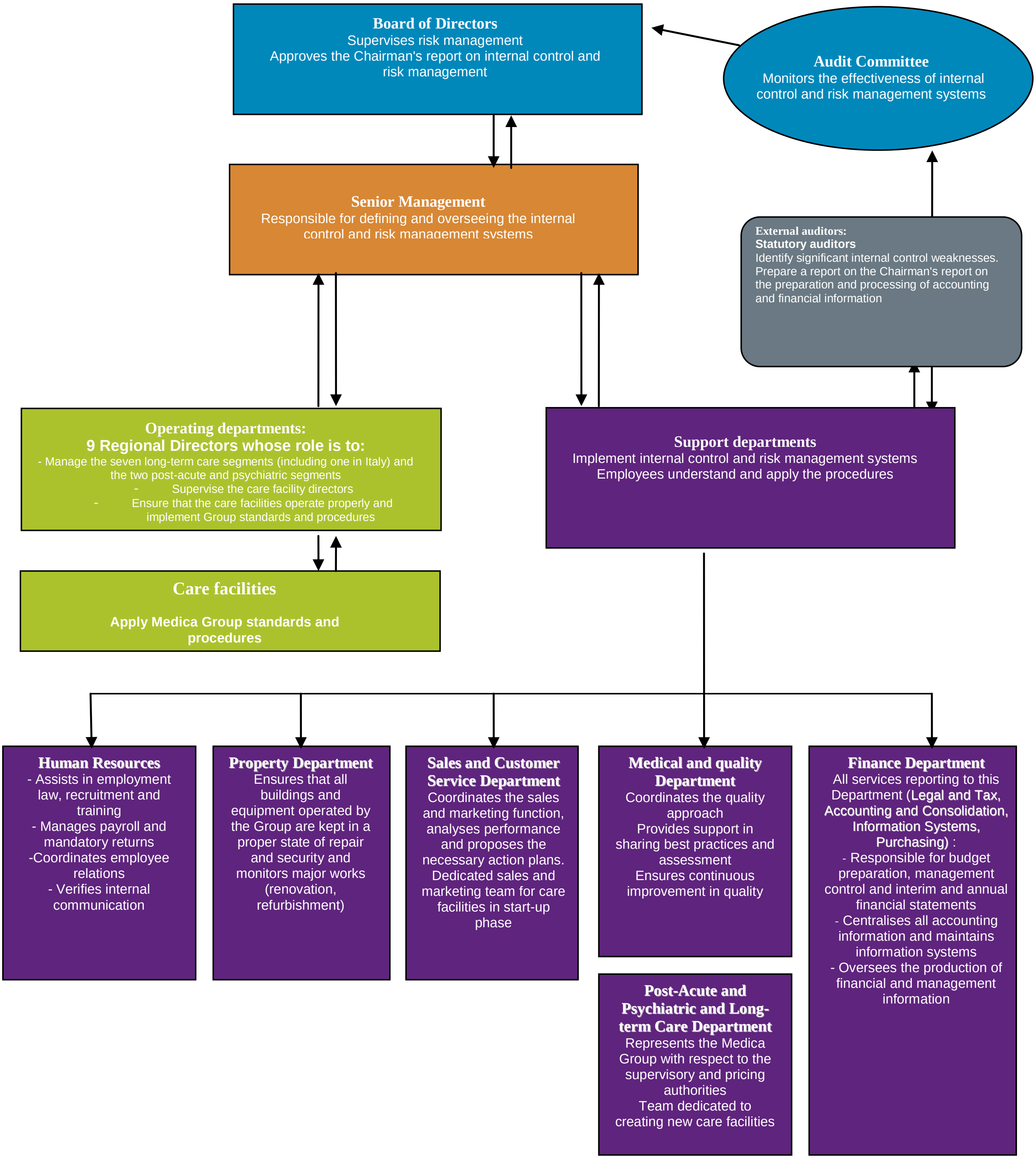
- the Medica Group's subsidiaries and care facilities comply with the laws and regulations;
- the instructions and directional guidelines, internal procedures and best practices set by senior management are properly applied;
- the Company's internal processes function correctly, particularly those implicating the security of the Group's assets;
- financial information and financial statements provided to the Company's governing bodies and the general public are reliable and accurate;
- identified risks arising from the Medica Group's operations are prevented and controlled; and
- operations are optimised.

The internal control systems described in this report are applied to the Medica parent company and to all companies included in the scope of consolidation.

In view of specific local conditions, the establishments in Italy operate their own specific internal control procedures, defined and supervised by the Aetas Spa holding company.

B. Internal control agents within the Medica Group

(a) Internal control organisation within the Medica Group



This organisation is based on two principles:

- independent management of each care facility by a director responsible for the operating budget, human resource management, the local implementation of the marketing policy and the implementation of harmonised, centralised procedures common to all care facilities and established at the level of the Medica group;
- centralised management of all care facilities, which provides functional support, sets targets and checks on their realisation.

Facility directors represent senior management in all their dealings with customers, employees and regulatory authorities. They implement and coordinate care facility planning and ensure compliance with regulations. They also organise human resources and local sales campaigns.

Central management is organised vertically and horizontally, with operational management covering sectors by geographical area or business segment, in each case supported by departments.

(b) The Audit Committee

The Audit Committee has three members, at least two of whom are independent directors, appointed by the Board of Directors from among its members with financial and management expertise. The Chairman of the Board of Directors may not be a member of the Audit Committee.

Members of the Audit Committee appointed by the Board of Directors on 29 March 2010 are:

- Gilles Cojan, Committee Chairman (independent director);
- Catherine Soubie (independent director);
- Jean-Baptiste Wautier (director).

The Audit Committee's role is to oversee:

- the process of preparing financial information;
- the effectiveness of internal control and risk management systems;
- auditing of the financial statements and, where applicable the consolidated financial statements by the Statutory Auditors;
- independence of the statutory auditors.

The Committee assists the Board of Directors and oversees the accuracy and fairness of the parent company and consolidated financial statements, the quality of internal control and the information provided to shareholders and to the market.

It has been more particularly tasked by the Board of Directors as follows:

As regards reviewing the financial statements, it is responsible for overseeing the process of preparing the financial information, the effectiveness of internal control and risk management systems, auditing of the statutory and consolidated financial statements and independence of the statutory auditors.

As regards internal control, it is responsible for assessing the effectiveness and quality of the group's internal control procedures to ensure that they contribute to the accuracy and fairness of the parent company and consolidated financial statements and that they comply with accounting standards. It is also responsible for overseeing the relevance and quality of financial communication within the Company.

During 2010, the Audit Committee met three times with an attendance rate of 100%, mainly to review the statutory and consolidated financial statements for 2009 and the interim financial statements for 2010.

C. Key internal control and risk management procedures

(a) Information systems

The effective management of the Medica group requires appropriate information control. The Medica group has deployed an information system, which satisfies the needs of the Medica group through two types of platforms:

- applications platforms delivering software to various Medica group businesses (sales management via 'Medicom' for long-term care and 'TimeWise' for post-acute and psychiatric care, reporting via 'Essbase', recruitment management and support via MediCV, billing, accounting and payroll);
- infrastructure platforms delivering services such as e-mail, file-sharing, intranet, internal directories and Mediged, a documentary database.

In addition, in order to limit the risks relating to loss of IT data or intrusion of systems containing sensitive data, (internal reporting on its facilities' occupancy rates and revenue, patient's medical records, drug stores, etc.), the Medica Group has centralised and secured all its application and infrastructure platforms at an SFR Business Team Datacentre,[18] which hosts the Group's core information system.

Finally, in its post-acute and psychiatric care facilities the Medica group has set up a medical information system programme (the "**PMSI**") as required by applicable regulations. A medical information department, consisting of one physician and one technician, has been created for this purpose.

Care facilities have IT tool systems gathering and compiling the various pieces of required information, which are then sent to the appropriate regulatory authorities. The physician visits the various facilities regularly, and training and coordination sessions are held with professionals twice a year at each site. The medical information system programme is already widely used as a management tool both in facilities and by senior management.

(b) Processing of financial and accounting information

Financial and accounting information processes, information flows and their conformity are controlled at various levels:

- The support departments implement appropriate internal control processes and ensure that procedures are effective and are observed;
- The Statutory Auditors verify the financial statements and their preparation independently and in accordance with strict professional standards.
- The Audit Committee reviews the financial and accounting information and issues relating to its preparation and control. It prepares the background work for the Board's approval of the annual financial statements or review of the interim financial statements.

[18] SFR Business Team, a Vivendi subsidiary, is an alternative fixed and mobile telephone operator in the French business market.

- The Board approves the financial statements and ensures the integrity of financial information released to the market.

Monitoring and control of financial and accounting information is organised as follows:

(i) Monitoring and control of operational management

The Management Control Department of the Medica group plans the budget process. It distributes and coordinates instructions for preparing annual budgets for each care facility, in cooperation with the facility directors and Regional Directors. These budgets are then consolidated into a group-level budget.

Monthly reporting (giving details primarily of operating accounts and the cost of labour) are drawn up on the basis of information recorded by the Accounting Department and submitted to Regional Directors to allow trends in revenue and operating expenses to be monitored and compared with budget forecasts. Corrective action may be taken in response to the analysis of any discrepancies.

(ii) Financial statements and audit

Prior to the closing of the financial year the Accounting Department finalises and distributes the schedule of closing operations to all persons involved in the preparation of financial statements and particularly to the Statutory Auditors.

The Accounting Department prepares individual financial statements for the group in a centralised fashion at the offices of the Administrative and Financial Department, which houses all group accounting services.

For the production of these financial statements, the Medica group uses a harmonised chart of accounts, which ensures:

- the uniformity of accounting methods and consolidation rules;
- the standardisation of reporting formats.

The Head of Consolidation prepares consolidated financial statements using dedicated consolidation software, which ensures the relevance and reliability of information. The consolidation process is based on the consolidation of group companies at the level of the group holding company, which owns directly or indirectly all group companies.

As part of their statutory mission, the Statutory Auditors conduct a full audit of accounts at the time of the annual closing. Each legal entity within the group that is legally required to do so provides the Statutory Auditors with a letter from the legal representative of the entity confirming the quality, reliability and completeness of the information and documentation provided to them.

The Statutory Auditors, having examined the financial statements and all details of their preparation, then report on the fairness, conformity and accuracy of parent company and consolidated financial statements.

(iii) Internal control procedures regarding off-balance sheet commitments

Off-balance sheet commitments are monitored directly by the Legal Department. The Legal Department is responsible for gathering summary information relating to guarantees given or received by all group companies.

Identification of off-balance sheet commitments is rigorous, written and continuously updated. This identification states for each commitment the identity of the beneficiary, the duration of the commitment and the detail of its implementation.

The summary information on all financial guarantees is included in the closing consolidated and parent company balance sheets.

(iv) Cash management

- Limitation of powers of facility directors

Cash management is strictly managed; care facilities do not have signatory rights on the bank accounts of the Company. The Accounting Department is responsible for the processing and payment of all invoices.

- Centralised cash management

The financing of all group subsidiaries takes the form of two cash pooling arrangements. This centralisation gives the group extensive control over cash transactions. In addition, the selection of two partner banks for the long-term arrangements provides an additional and significant element of internal control.

- Trade receivables team within the Accounting Department

In 2009, the Medica group introduced a vigorous policy of reducing overdue customer accounts, particularly in the post-acute and psychiatric sector, through an acceleration of the invoicing and recovery process. In the long-term care sector in France, the group also introduced an extension of its policy of direct debit payments in order to reduce administrative costs and overdue customer accounts.

(c) Operational risk prevention and management systems

The Medica Group's code of conduct is based on respect for individuals and demanding quality standards.

Daily risk management forms an integral part of the procedures adopted by the Medica Group as part of a quality and best professional practices approach at its care facilities. It covers all areas of activity in the care facilities, including medical information channels and confidentiality, medication, food, linen and water).

A prevention plan is defined by each care facility and reviewed annually by the facility director. It includes:

- crisis management unit composition, duties and operating rules;
- accommodation and circulation arrangements to be implemented;
- arrangements for employee information and communications;
- prevention and treatment arrangements particularly in the event of a heat wave, epidemic or pandemic (H1N1 influenza, H5N1 influenza, etc.);
- arrangements for keeping the facility running in a crisis situation (business continuity plan).

This section presents the principal measures taken by the Medica Group to limit its exposure to the risks inherent in its long-term care and post-acute and psychiatric care operations. The procedures presented below and described in more detail in the reference document are assessed and controlled by the Medica Group at each care facility twice a year.

- **A certified quality and ethics approach**

Since 1999, the Medica group has ensured that all its care facilities have been firmly committed to a quality assurance programme. The first stage, led by the Medical and Quality department, consisted in having all teams record their professional practices in the Medica Best Practice Guide. This Best Practice Guide covers all of its business activities: accommodation and catering, quality of care (medical information channels, confidentiality, provision of drugs), dependency care, hygiene and safety, organisation of social life, human resources, administrative and financial services and asset portfolio.

Harmonised procedures within the Medica group are thus applicable at both long-term care and post-acute and psychiatric care facilities. While each care facility retains its autonomy, it operates within the framework of the Medica group-level procedures. This harmonisation of procedures, systems and support facilitates the sharing of skills and of experience between care facilities. It also represents the fundamental pillar of its risk management policy that is common to all its care facilities. The Medica group also attaches particular importance to training employees thoroughly in these procedures, with a view to harmonising the quality of services offered across all facilities.

Medica, first healthcare group in France to obtain NF Service certification

Since 2006, the Medica group has endeavoured to adopt a genuine programme of continuous improvement by referring to the NF X 50-058 norm "Etablissements d'Hébergement pour personnes âgées: cadre éthique et engagements de service" (Facilities accommodating elderly people: ethical framework and service commitments) and the NF 386 certification rules concerning nursing homes[19].

The NF X 50-058 norm satisfies the concept of care and respect and the transparency needs of nursing homes. It aims to safeguard "quality of service, an individualised welcome and a clear contractual relationship as well as compliance of the service with the commitments set forth in the standard". It defines the ethical framework and general principles governing the service, the care facility's life plan and the resident's personal life plan. Designed based on the needs and expectations of the elderly, the standard endeavours to handle two major challenges for elderly people living in nursing homes, i.e., how to maintain their independence and how to maintain their social life.

The NF Service certification achieved by the Medica group is the result of an active programme pursued by senior management and the commitment shown by each nursing home director. Accordingly, each facility commits to a quality monitoring process based on self-assessment, while regularly undergoing inspections by AFNOR. A quality of service evaluation is based on regular self-inspections, an annual internal assessment and an annual external assessment by corporate departments and on a representative sample of facilities.

95% of long-term care facilities that have been part of the Group for more than two years are now NF Service certified. Medica is the first healthcare group in France to obtain this certification. The accreditation of its care facilities has made the Medica group a pioneer in the ANEMS external assessment process. It also enhances the credibility of the Medica group when it comes to gaining permits to create new care facilities.

Certified post-acute and psychiatric care facilities

The healthcare professionals working at the Medica group's post-acute and psychiatric care facilities are subject to the accreditation system (V2-V2007 certification) that is to be gradually replaced from January 2010 by V2010 certification. The V2007 and V2010 certifications developed

[19] NF X 50-058 published in February 2003 supplemented by the NF 386 version 2 certification rules published in the JO on 17 December 2008.

by the Overall Health Authority (HAS) are very close to the ISO 9001 accreditation system, which is well known in the industrial and service world.

The certification of healthcare facilities is a mandatory step that aims to make a contribution towards the improvement in the care of patients in hospitals and clinics. It consists in a self-assessment every four years, followed by an inspection by external healthcare professionals (appraisers) at the facility, and includes a follow-up system that aims to commit the facility's staff to a long-term quality programme. Certification assesses not only the quality management system, but also specific aspects of the way in which care is organised.

All of Medica's 36 post-acute and psychiatric care facilities are V2-V2007 certified. Of the ten areas analysed, Medica's three strengths were facility and operations management, patient records and human resources management.

In addition to regulatory obligations, the Medica group has decided to develop a fully-fledged quality and risk management programme, which should help to improve services delivered to patients through the participation of all staff in its care facilities. In addition to the regulatory obligations, certification helps to reinforce adoption of these goals among the teams. According to a survey carried out in 2010 by the Institut CSA for the Medica Group, 92% of its employees believe that certification is essential for the Medica Group's image.

- **Identifying and preventing managerial risk**

A risk committee has been formed, consisting of the Chief Executive Officer, Medical and Quality Director and Human Resources Director. It meets monthly to determine which care facilities require support.

The first stage in identifying these facilities is a field assessment to confirm the level of risk and define an action plan and areas of improvement.

A scale of managerial risk was introduced in 2009. This consists of the consolidation, twice a year, of a set of objective quantifiable data which help anticipate all managerial risks for a facility.

The alert criteria defined are as follows:

- Involvement of staff
- Governance
- Atmosphere in a facility
- Results
- Opinion of regulatory bodies

A Professional Support Group (PSG) is then created to monitor the care facilities identified. This PSG provides resources in terms of local management to help implement the actions that will anticipate and manage any crisis.

- **Property portfolio**

One of the Medica Group's prime objectives is to ensure the safety of its buildings and equipment at all times. It monitors the state of repair of all its properties and their compliance with safety standards, and appoints specialist organisations to inspect its facilities for safety, compliance and proper operation.

More particularly, the Medica Group pays close attention to fire prevention. A fire at one of its facilities could have severe consequences as its residents are dependent and have reduced mobility. In accordance with the regulations, the Medica Group maintains a safety register and inspects fire detection equipment twice a year. It also provides staff safety training four times a year, and a technical inspection report is prepared every six months.

- **Crisis management**

In parallel with procedures and policies to prevent and respond to operating risks, a team comprising the facility director, the Chief Executive Officer and a press spokesperson is responsible for taking charge of various situations considered to require specific management attention (e.g. a fire or a malicious act resulting in injury, a critical weather event or water pollution), in view of their possible effects on residents and potentially adverse impact on the reputation of the Company and the Medica Group. This unit defines the immediate responses to be implemented at the relevant facility and is responsible for any communication that may be required.

- **Insurance**

All subsidiaries are covered by Group insurance policies. All the various insurance policies are taken out by Medica France and each subsidiary is included as an insured entity, to ensure the broadest possible coverage and competitive prices, and to rationalise and control risk coverage within the Group. The premiums are charged back to the subsidiaries by Medica France on an annual basis.

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The main actions undertaken in 2010 as a result of the Company's initial public offering were the creation of an Audit Committee and a Compensation and Appointments Committee.

In 2011, the Medica Group will pursue its active and continuous improvement approach to internal control and risk management with the aim of complying with the recommendations set out in the Reference Code and the recommendations made by the AMF.

This report has been prepared in cooperation with the various Group Departments and is submitted for the approval of shareholders.

Chairman of the Board,

Jacques Bailet

Annex 2: Statutory Auditors' special report on the report of the Chairman of the Board of Directors

MAZARS

61, rue Henri Regnault
92400 Courbevoie

CONSTANTIN ASSOCIES
Member of Deloitte Touche Tohmatsu
185, avenue Charles de Gaulle
92200 Neuilly sur Seine

Patrick GRIMAUD

17, rue du Sergent Bauchat
75012 Paris

Medica

Société anonyme
39, rue du Gouverneur Général Félix Eboué
92130 Issy-les-Moulineaux

Statutory Auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code on the report of the Chairman of the Board of Directors

Year ended 31 December 2010

To the Shareholders

As statutory auditors to Medica SA and in accordance with the provisions of article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with the provisions of article L. 225-37 of the French Commercial Code for the year ended 31 December 2010.

It is the Chairman's responsibility to prepare and submit for the Board of Directors' approval a report on the internal control and risk management procedures implemented by the Company and to provide the other information required under article L. 225-37 of the French Commercial Code on matters relating to corporate governance.

Our role is to:

- report on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information; and
- confirm that the report contains the other information required by article L. 225-37 of the French Commercial Code. Our role is not to verify the fairness of this other information.

We conducted our work in accordance with the professional standards applicable in France.

Information on internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of accounting and financial information. These procedures consist mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information underlying the information presented in the Chairman's report, and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we may have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have no matters to report on the information provided about the company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with article L. 225-37 of the French Commercial Code.

Other information

We confirm that the report prepared by the Chairman of the Board of Directors also contains the other information required by article L. 225-37 of the French Commercial Code.

Neuilly, Paris and Courbevoie, 31 March 2011

The Statutory Auditors

MAZARS	CONSTANTIN ASSOCIES	Patrick GRIMAUD
Denis Grison	Jean-Paul Séguret	

Annex 3: Ownership of share capital and voting rights

On the date of this document and to the best of the Company's knowledge, the ownership of the Company is as follows (based on notifications of significant interests received by the Company):

Shareholders	Ordinary shares	
	Number of shares	**% of share capital and voting rights**
TBU 3 International [1]	14,604,289	30.49 %
J. Bailet	968 ,186	2.02%
C. Jeandel	590,391	1.23%
Société Civile d'Investissement du Groupe Medica[2]	183,352	0.38%
Société Civile d'Investissement du Groupe Medica II [2]	12,652	0.03%
Medica France Group employee share ownership plan	53,578	0.11%
Predica[3]	5,408,660	11.29%
Threadneedle Asset Management Holdings Limited (indirect subsidiary of Ameriprise Financial, Inc.)[4]	916,159	1.91%
Amundi, Société Générale Gestion, Etoile Gestion SNC[4]	980,626	2.05%
Free float	24,186,187	50.49%
Total	**47,904,187**	**100%**

[1] TBU 3 International SA: a company owned by funds and vehicles advised by BC Partners, an international private equity firm operating in London, Paris, Milan, Hamburg, Geneva and New York.

[2]These investment partnerships were created by certain senior executives specifically for the purpose of acquiring an equity interest in Medica.

[3] Subsidiary of Crédit Agricole Assurances.

[4] Based on notifiable interests reported to the Company

Since the initial public offering on Euronext Paris and until the date of this document, the following significant interests have been notified to the AMF:

Name of shareholder	Date	Direction	Number of shares/voting rights[2]	Percentage of share capital and voting rights[1][2]	AMF notice
TBU-3 International	01/04/2011	Down	14,604,289	30.49%	**211C0395**
BNP Paribas	18/02/2010	Up	3,009,998	6.28%	**210C0174**
Crédit Agricole SA	18/02/2010	Up	5,408,820	11.29%	**210C0176**
BNP Paribas	19/02/2010	Down	256,950	0.54%	**210C0184**
TBU-3 International	23/02/2010	Down	21,604,289	45.10%	**210C0191**

[1] Based on information provided by the Company as required by the provisions of article L.233-8 of the French Commercial Code and article L.223-16 of the AMF's General Regulation on the date of notification, insofar as the total number of voting rights published monthly is calculated, in accordance with article L.223-11 of the AMF's General Regulation, on the basis of all shares which may potentially have voting rights attached, including any shares stripped of their voting rights (treasury shares held directly and under a liquidity contract).
[2] There are no provisions in the Company's article of association for double voting rights.

The full text of these notifications can be viewed on the AMF's website (www.amf-France.org).

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Société anonyme with share capital of €18,653,466.50
RCS Nanterre 421 896 408