KPMG

(Translation from the Italian original which remains the definitive version)

KOS Group

Consolidated financial statements as at and for the year ended 31 December 2017

(with independent auditors' report thereon)

KPMG S.p.A.

29 March 2018

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
KOS S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the KOS Group (the "Group"), which comprise the statement of financial position as at 31 December 2017, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the KOS Group as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of KOS S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The Group's 2016 consolidated financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 4 April 2017.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of KOS S.p.A. for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of KOS S.p.A. are responsible for the preparation of the Group's directors' report at 31 December 2017 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Group's consolidated financial statements at 31 December 2017 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the consolidated financial statements of the KOS Group at 31 December 2017 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 29 March 2018

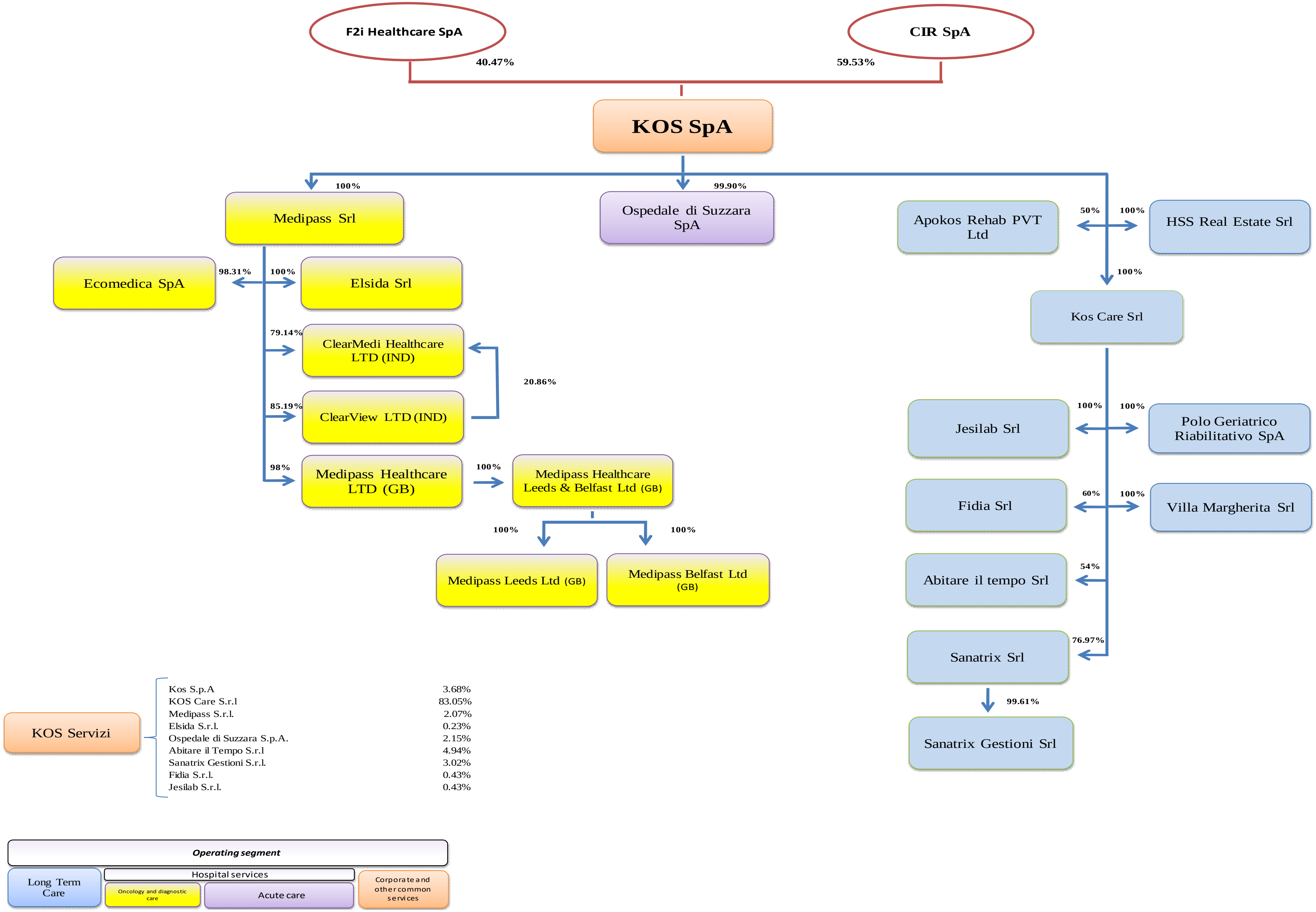
KPMG S.p.A.

(signed on the original)

Claudio Mariani
Director of Audit

KOS

2017 Annual Report


F2i Healthcare SpA
CIR SpA
40.47%
59.53%
KOS SpA
100%
Medipass Srl
99.90%
Ospedale di Suzzara SpA
Apokos Rehab PVT Ltd
50%
100%
HSS Real Estate Srl
100%
Kos Care Srl
Ecomedica SpA
98.31%
100%
Elsida Srl
79.14%
ClearMedi Healthcare LTD (IND)
20.86%
85.19%
ClearView LTD (IND)
98%
Medipass Healthcare LTD (GB)
100%
Medipass Healthcare Leeds & Belfast Ltd (GB)
100%
100%
Medipass Leeds Ltd (GB)
Medipass Belfast Ltd (GB)
Jesilab Srl
100%
100%
Polo Geriatrico Riabilitativo SpA
Fidia Srl
60%
100%
Villa Margherita Srl
54%
Abitare il tempo Srl
76.97%
Sanatrix Srl
99.61%
Sanatrix Gestioni Srl
KOS Servizi
Kos S.p.A 3.68%
KOS Care S.r.l 83.05%
Medipass S.r.l. 2.07%
Elsida S.r.l. 0.23%
Ospedale di Suzzara S.p.A. 2.15%
Abitare il Tempo S.r.l 4.94%
Sanatrix Gestioni S.r.l. 3.02%
Fidia S.r.l. 0.43%
Jesilab S.r.l. 0.43%
Operating segment
Long Term Care
Hospital services
Oncology and diagnostic care
Acute care
Corporate and other common services

Index

Corporate Governance

<u>Board of Directors</u>

Chairman	Carlo Michelini
Deputy Chairman	Francesco Dini
Chief Executive Officer and General Manager	Giuseppe Vailati Venturi
Directors	Monica Mondardini Matteo Ambroggio Rosaria Calabrese Giuseppe Gianoglio Michele Cavigioli

<u>Board of Statutory Auditors</u>

President	Luca Aurelio Guarna
Statutory auditors	Luigi Nani Luigi Macchiorlatti Vignat
Substitute statutory auditors	Sergio Valter Finulli Renato Colavolpe
External auditors	KPMG S.p.A.

DIRECTORS' REPORT ON OPERATIONS – KOS GROUP

General information on the KOS Group

KOS Group was established in 2002 with the aim of creating a key hub in the private healthcare sector and, more specifically, in the nursing homes and rehabilitation segment.

Since 2003 the KOS Group has grown partly as a result of the typical characteristics of the Italian healthcare system and the ambitious growth objectives set by the Group. However, the main reason for growth has been the acquisition of existing facilities and companies and, to a lesser extent, the acquisition of land and the construction of new nursing homes and rehabilitation facilities.

In compliance with its internal reporting system and IFRS, the Group's current organisational chart includes two SBAs (Strategic Business Areas) which are in turn divided into three operating segments. It should also be noted that corporate costs and Group costs for shared services are recognised separately in the financial reporting by operating segment. In relation to the Group activities, the parent company KOS S.p.A. carries out co-ordination and strategic guidance activities in specific areas such as development, staff and property management policies, purchases of goods and services, administration, finance and management control, risk management, information systems, relations with the Public Administration and marketing in order to ensure a uniform approach to its most important management decisions, as well as the prompt acquisition of commercial, technical and contractual information in order to enable the Group to optimise the existing synergies among the different areas. We recall that, on 1 July, Residenze Anni Azzurri S.r.l. was merged into Riabilitazione S. Stefano S.r.l. The latter company was renamed KOS Care S.r.l and operates in eight Italian regions under the following brands: Santo Stefano (rehabilitation), Anni Azzurri (nursing homes) and Neomesia (psychiatry). Following these changes to the organisational structure, the Group's functional rehabilitation, psychiatric rehabilitation and nursing home management activities have been included in the Long term care SBA.

The structure by SBA and operating segment is shown below:

Strategic Business Area (SBA)	**Operating Segment**	**Activity**
Long term care	Long term care	Management of nursing homes for the elderly, management of functional and psychiatric rehabilitation facilities, management of psychiatric treatment communities and outpatient centres.
Hospital services	Acute care	Management of Suzzara Hospital under a concession
	Cancer treatment and diagnostic services	Provision, on an outsourced basis, of advanced high tech diagnostic and radiotherapy services within hospital facilities and management of accredited radiology centres and health centres

The Group performs its activities mainly in Italy and largely in the Central-Northern regions as illustrated below:

	Nursing Homes	Rehabilitation	Hospital services		**Total**
Region			Acute care	Cancer treatment and diagnostic services (2)	
Lombardy	17	5	1	2	**25**
Piedmont	13	2		1	**16**
Liguria	7	6			**13**
Marche (1)	4	9			**13**
Emilia Romagna	3	3		10	**16**
Tuscany	1	2		1	**4**
Veneto	3	1		2	**6**
Trentino		1			**1**
Lazio	1			1	**2**
Campania		1			**1**
Umbria		1			**1**
Foreign countries				18	**18**
Total	**49**	**31**	**1**	**35**	**116**

Note (1): In the Marche region there are also 15 outpatient clinics, included in the Long term care SBA
Note (2): For cancer treatment and diagnostic services, s, reference is made to the facilities where Medipass conducts its activities.

The split between Nursing Homes, Rehabilitation and Acute Care reflects the Group's current organisational structure in compliance with its internal management reporting system. However, we note that some facilities carry out multiple types of activities in the Nursing Homes, Rehabilitation and Acute Care segments as shown in the tables in the following paragraph.

Nursing Home Management

In the Nursing Homes sector, the Group is Italy's main private operator in terms of turnover and number of beds managed and mainly operates under the "Anni Azzurri" brand.

Nursing Homes represent a basic long-term care solution meeting the specific requirements of elderly persons over 65 years of age who cannot look after themselves. They complement other facilities, such as hospitals, rehabilitation centres and homecare, aimed at ensuring the physical and mental wellbeing of the elderly when care cannot be guaranteed by other facilities and/or their families.
All Anni Azzurri Nursing Homes are certified in accordance with currently applicable laws, as this a pre-requisite for them to operate. Furthermore, the Anni Azzurri Nursing Homes are partially or entirely accredited with the Italian National Healthcare System. This is also a pre-requisite to providing care services on behalf of the Italian National Healthcare System and to applying for reimbursement of a portion of the fees charged by the Nursing Homes. The table below contains a list of the Anni Azzurri Nursing Homes managed by the Group as at the reporting date. It shows the number of authorised and accredited beds at each nursing home.

Region	Municipality	Name	Number of beds authorised		
			The Elderly	Rehabilitation	Total
Lombardy	Milan	S. Faustino	150		**150**
Lombardy	Milan	S. Luca	91		**91**
Lombardy	Milan	Navigli	87		**87**
Lombardy	Milan	Parco Sempione	94		**94**
Lombardy	Cassina de' Pecchi (MI)	San Rocco	150		**150**
Lombardy	Segrate (MI)	Il Melograno	150		**150**
Lombardy	Caglio (CO)	Villa Dossel	60		**60**
Lombardy	Mozzate (CO)	S. Alessandro	53		**53**
Lombardy	Opera (MI)	Mirasole	204	56	**260**
Lombardy	Rezzato (BS)	Rezzato	166	38	**204**
Lombardy	Monza	Monza	120		**120**
Lombardy	Bergamo	San Sisto	120		**120**
Lombardy	Villanuova sul Clisi (BS)	S. Francesco	124		**124**
Lombardy	Milan	Polo Geriatrico Riabilitativo Milano	204		**204**
Lombardy	Cinisello Balsamo (MI)	Polo Geriatrico Riabilitativo Cinisello	109	103	**212**
Lombardy	Milan	Sant'Ambrogio	150		**150**
Lombardy	Bollate (MI)	San Martino	147		**147**
Total			**2,179**	**197**	**2,376**
Piedmont	Carmagnola (TO)	Carmagnola	122		**122**
Piedmont	Dogliani (CN)	Dogliani	40		**40**
Piedmont	Dormelletto (NO)	Palladio	88		**88**
Piedmont	Gattinara (VC)	San Lorenzo	78		**78**
Piedmont	Marene (CN)	La Corte	111		**111**
Piedmont	Santena (TO)	Santena	86	20	**106**
Piedmont	Scarnafigi (CN)	Scarnafigi	52		**52**
Piedmont	Tonengo d'Asti (AT)	Le Colline del Po	120		**120**
Piedmont	Vespolate (NO)	Vespolate	20		**20**
Piedmont	Volpiano (TO)	Volpiano	219	21	**240**
Piedmont	Dogliani (CN)	Biarella	80		**80**
Piedmont	Montanaro (TO)	Montanaro	120		**120**
Piedmont	Turin	Cit Turin	140		**140**
Total			**1,276**	**41**	**1,317**
Liguria	Botasi (GE)	La Margherita	25		**25**
Liguria	Chiavari (GE)	Castagnola	72		**72**
Liguria	Favale (GE)	Casteldonnino	30		**30**
Liguria	Genova	Rivarolo	94		**94**
Liguria	Riva Ligure (IM)	Le Grange	95		**95**
Liguria	Sanremo (IM)	B. Franchiolo	78		**78**
Liguria	Rapallo (GE)	Minerva	67		**67**
Total			**461**	**-**	**461**
Emilia Romagna	Modena	Ducale 1	89		**89**
Emilia Romagna	Modena	Ducale 2/3	114		**114**
Emilia Romagna	Bagnolo in Piano (RE)	Bagnolo	80		**80**
Total			**283**	**-**	**283**
Veneto	Favaro Veneto (VE)	Mestre	150	16	**166**
Veneto	Quarto d'Altino (VE)	Quarto d'Altino	152		**152**
Veneto	Villadose	Villadose	120		**120**
Total			**422**	**16**	**438**
Tuscany	Borgo S. Lorenzo (FI)	Beato Angelico	58		**58**
Total			**58**	**-**	**58**
Marche	Ancona	Conero	84		**84**
Marche	Fossombrone (PU)	Casargento	60		**60**
Marche	Ancona	Residenza Dorica	129		**129**
Marche	Montecosaro	Santa Maria in Chienti	85		**85**
Total			**358**	**-**	**358**
Lazio	Roma	Parco di Veio	118		**118**
Total			**118**	**-**	**118**
Total			**5,155**	**254**	**5,409**

Nursing homes operating under the "Anni Azzurri" brand provide a full range of assistance and care services for the elderly, including medical and geriatric services, nursing services, basic physical activities or mobilization and rehabilitation, support and protection in daily activities, personal care and hygiene, recreation, catering with personalised diets and religious guidance. The nursing homes also offer specific healthcare and rehabilitation programmes. Some residences are specialised in the treatment of specific conditions and provide assistance to the elderly with acquired disabilities, psychiatric problems, multiple sclerosis and Alzheimer's diseases, as well as persons in a persistent vegetative state.

In addition to medical-healthcare and assistance services, all the Anni Azzurri Nursing Homes also provide the following services, among others:

- accommodation : rooms with bathroom facilities;
- core services: living room - entertainment area – TV lounge, kitchen, dining room, washrooms with carers available, staff rooms; and
- service centre and community services: reception and administrative offices, common living room /music and reading, bar, multipurpose room, hobby rooms, worship rooms, hair stylist and beautician, outpatient care, chiropody service, fitness/changing room, general services, kitchen/pantry, laundry.

The **psychiatric rehabilitation** facilities managed by the Group operate under the "Neomesia" brand.

For psychiatric rehabilitation, the Group uses a team of professionals in the field of mental health (psychiatrists, psychologists, occupational therapists, psychiatric rehabilitation technicians, and nurses) who work together within specific care teams to prepare each patient's individual therapy programme. The individual therapy programme includes the patients psychopathological, behavioural, relational, family, social, work, and functional profile and residual resources and sets out a specific treatment and rehabilitation programme aimed at the patient's wellbeing.

Psychiatric Rehabilitation			**Number of beds**
Lombardy	Milan	Cima	19
Lombardy	Pavia	Casa Maura	20
Piedmont	Sampeyre (CN)	Sampeyre	25
Piedmont	Sanfrè (CN)	Sanfrè	20
Liguria	Varazze (SV)	Varazze	40
Liguria	Mioglia (SV)	Mioglia	22
Liguria	Varazze (SV)	Redalloggio	15
Liguria	Sanremo (IM)	Red West	25
Liguria	Borzonasca (GE)	Tuga	15
Liguria	Borzonasca (GE)	Tuga 2	15
Emilia Romagna	Modena	Villa Rosa*	82
Emilia Romagna	Riolo Terme (RA)	Casa di cura Villa Azzurra	100
Tuscany	Lucca	Ville di Nozzano*	40
Tuscany	Camaiore (LU)	Villamare*	10
Marche	Maiolati Spontini (AN)	Villa Jolanda	74
Marche	Serrapetrona (MC)	Beata Corte	20
Total			**542**

* Psychiatric rehabilitation facility

Rehabilitation

The Group is one of Italy's major private operators in the sector involving management of functional rehabilitation facilities (hospital, non-hospital and outpatient care) and psychiatric rehabilitation facilities. It mainly operates under the "Santo Stefano" brand (functional rehabilitation).

The **functional rehabilitation** facilities operate mainly in the Marche region where the Group is the first ranking private operator and the leading provider of rehabilitation services (also including public sector facilities). As at the reporting date, the Group was managing a total of 13 functional rehabilitation facilities, 2 Nursing Homes and 15 outpatient clinics under the "Santo Stefano" brand.

Region	Municipality	Name	Number of beds authorized			
			Rehabilitation	The Elderly	Acute care	Total
Functional rehabilitation						
Rehabilitation centres						
Marche	Porto Potenza Picena (MC)	Porto Potenza Picena	430			**430**
Marche	Ancona	Villa Adria	80			**80**
Marche	Cagli (PU)	Cagli	20			**20**
Marche	Ascoli Piceno	Ascoli Piceno	80			**80**
Marche	Macerata Feltria (MC)	Macerata Feltria	40			**40**
Marche	Civitanova Marche (MC)	Villa dei Pini	15	65	105	**185**
Marche	Loreto (AN)	Abitare il Tempo	50	82		**132**
Emilia Romagna	Fontanellato (PR)	Centro Cardinal Ferrari	103			**103**
Trentino	Arco (TN)	S. Pancrazio	111			**111**
Lombardy	Anzano al Parco (CO)	Villa S. Giuseppe	88			**88**
Lombardy	Casorate Primo (PV)	Ospedale di Casorate Primo	38			**38**
Lombardy	Mede (PV)	Ospedale di Mede	18			**18**
Veneto	Arcugnano (VI)	Casa di cura Villa Margherita	147			**147**
Campania	Benevento	Casa di cura Villa Margherita	135			**135**
Umbria	Foligno (PG)	Foligno	83			**83**
Outpatient clinics						
Marche	Ascoli Piceno	Centro ambulatoriale				
Marche	Camerino (MC)	Centro ambulatoriale				
Marche	Civitanova Marche (MC)	Centro ambulatoriale				
Marche	Fabriano (AN)	Centro ambulatoriale				
Marche	Filottrano (AN)	Centro ambulatoriale				
Marche	Jesi (AN)	Centro ambulatoriale				
Marche	Macerata	Centro ambulatoriale				
Marche	Matelica (MC)	Centro ambulatoriale				
Marche	San Severino (MC)	Centro ambulatoriale				
Marche	San Benedetto T. (AP)	Centro ambulatoriale				
Marche	Tolentino (MC)	Centro ambulatoriale				
Marche	Porto Potenza Picena (MC)	Centro ambulatoriale				
Marche	Jesi (AN)	Centro ambulatoriale JesiLab				
Marche	Civitanova Marche (MC)	Centro ambulatoriale Fidia				
Marche	Pesaro	Centro ambulatoriale				
Total			**1,438**	**147**	**105**	**1,690**

The Group provides patients with services that meet a wide range of rehabilitation needs, providing assistance to people of all ages and at any stage of their clinical treatment while ensuring that care continues once they have been discharged.

The aim of the rehabilitation services provided by the Group is to enable people to recover their functional autonomy and take part in social/family/working life as far as possible, depending on the extent of the damage and impaired faculties that they have suffered.

Hospital services

Under the “Medipass” brand, the Group provides complex high tech medical services (diagnostic imaging, nuclear medicine and radiotherapy currently under development), on an outsourced basis, to hospitals and public and private healthcare facilities. In this area the Group also manages an hospital in Suzzara (Mantua).

In the outsourced Hospital Services area, the Group mainly operates through public and private partnerships developed both through project financing and under private concessions from public entities. This business strategy enables the Group to act as a partner for the public sector in all the areas in which it operates, thus enabling it to cover all the needs for the provision of long-term care services.

Cancer treatment and diagnostic imaging (Medipass Group)

The Medipass Group offers public and private healthcare facilities “turnkey” solutions for the design, construction and operation of advanced healthcare services that enable clients to provide patients with diagnostic and/or treatment services. The key feature of the services offered by Medipass is the use of complex medical technology. In particular, Medipass supplements client healthcare facilities in order to:

- Accelerate and simplify the adoption of new methods and technologies;
- Facilitate optimal utilisation of diagnostic and treatment systems, human resources and medical premises;
- Increase capacity to satisfy existing demand or achieve future specialist care objectives.

Medipass is able to provide an integrated service which, depending on effective client requirements, may include:

- Identifying the requirement and sustainability of the activities being planned;
- Determining the layout, design and construction of the premises that will house the service;
- Initial supply and possible periodical renewal of medical technology;
- Supervision of installation and testing of technology;
- Support with managing the authorisation and approval process and launching the service;
- Long-term maintenance of existing and new equipment;
- Provide specialist healthcare personnel (e.g. doctors and technicians) and administrative personnel to work with client resources as well as a team of specialists to support all operations (biomedical engineer, project manager, risk manager, etc.);
- Staff training.

The main areas of operation include:

Advanced Diagnostic Imaging ("DIA")

- Diagnostic procedures based on the use of diagnostic instruments to perform anatomical-functional analysis of the human body. In addition to traditional Radiology techniques (conventional, CAT, haemodynamic, mammography), they also use Ultrasound and Magnetic Resonance technology. In this segment, Medipass the operations managed by Medipass range from individual pieces of equipment (e.g. MR, CAT scanners) in the department (e.g. Radiology) to all of the hi-tech equipment of a client healthcare facility.

Cancer Treatment and Diagnostics ("CC")

- Nuclear medicine (e.g. PET-CT): metabolic diagnostic technique used extensively in clinical oncology (to show tumours and look for metastases) and in cardiology and neurology. In this segment, Medipass handles activities regarding the preparation and use of radio pharmaceuticals (short half-life isotopes produced with cyclotron) on behalf of the hospital and supports the performance of diagnostic services, working alongside the existing resources of healthcare facilities.
- Radiotherapy: clinical method which uses high energy radiation (e.g. photons or electrons) to treat tumours. In this sector, Medipass operates individual pieces of equipment (e.g. Linear Accelerator) through to all of the hi-tech equipment of the radiotherapy unit of the client facility. At the end of 2017, the company was operating around 50 Linear Accelerators in Italy and abroad (UK and India).

Therefore, in the CC field, Medipass can handle much of the diagnostic and treatment process of the cancer patient: from diagnostic imaging (production of radio-pharmaceutical, performance, interpretation and reporting of PET-CET scan) to any subsequent radiotherapy (treatment planning and delivery).

Medipass operates in the above sectors by means of various service models depending on specific client requirements. These service models include:

- Fully Managed Services. Provision of a certain equipment and services connected and in addition to client resources (e.g. medical, technical and admin personnel) needed to use them as well as possible. The length of the service is generally in line with the useful life of the equipment made available and remuneration is based on the number of services (scans, etc.) provided.
- Managed Equipment Services ("MES"). Service model originating from English-speaking countries. It involves the long-term management of a significant amount of high-tech medical equipment (initial supply and periodical renewal) and related maintenance services in order to provide the client with a functioning, up-to-date technological equipment at a certain cost. This type of service lasts for a longer period (>15 years) and is remunerated by means of a fixed fee, even though contracts are subject to appropriate changes.

Medipass also provides diagnostic services and specialist services to out-patients in the province of Bologna at six NHS-accredited public clinics, at two NHS accredited private clinics owned by it (through subsidiary Elsida Srl) and at another one in the province of Florence (subsidiary Ecomedica SpA of Empoli) which includes a radiotherapy department.

The Group also operates abroad through subsidiaries Clearmedi Healthcare LTD (India) and Medipass Healthcare LTD (UK). In particular:

- Clearmedi is one of the leading providers of Fully Managed Services in India. Founded in 2011, it now has around 14 service contracts with private healthcare facilities, mainly in Radiotherapy and Cancer Care.

- Medipass Healthcare is an independent vendor of MES Services in the United Kingdom. It currently manages the hi-tech equipment of two of the United Kingdom's leading Cancer Centres with more than 20 Linear Accelerators and numerous items of ancillary diagnostic equipment.

Every year, Medipass provides more than 500,000 diagnostic and treatment services in 35 centres in Italy and abroad. It currently operates more than 100 pieces of hi-tech equipment (e.g. Linear Accelerators, PET-CT, Cyclotrons, MRI, CAT), as well as hundreds of pieces of ancillary medical equipment.

The table below contains a summary of the services supplied by Medipass, also through subsidiaries Elsida S.r.l. and Ecomedica SpA and its foreign subsidiaries, with details of the hospitals in which the services are provided.

NELLA TABELLA, modificare "6 Polyclinic pubblic" in "6 accredited public health centres" e "1 Polyclinic private" in "1 accredited private health centre" (due volte)

Region	**Municipality**	**Hospital/Structure**
Italy:		
Veneto	Mestre	Mestre new hospital
Veneto	Castelfranco Veneto	Castelfranco Veneto hospital
Emilia Romagna	Bologna	Toniolo nursing homes
Lazio	Roma	Gemelli U.C.S.C. hospital
Lombardy	Brescia	Spedali Civili di Brescia
Lombardy	Milano	Pio X nursing homes
Piedmont	Alessandria	San Biagio hospital
Emilia Romagna	Bologna	6 Polyclinic pubblic
Emilia Romagna	San Giovanni Persiceto (BO)	1 Polyclinic private
Emilia Romagna	Anzola Emilia (BO)	1 Polyclinic private
Emilia Romagna	Bologna	Villa Laura private hospital
Tuscany	Empoli	xxx Polyclinic Ecomedica
Europe:		
U.K.	Leeds	St. James Institute of Oncology
U.K.	Belfast	Belfast city Hospital Cancer centre
U.K.	Norfolk	Norfolk Hospital
Other:		
India	Hisar	Jindal Institute of cancer and research
India	Indore	Synergy Hospital
India	Meerut	Valentis Cancer Care Hospital
India	Madhya Pradesh	Jan Seva Trust Bimr Hospitals
India	Vadovra	Kailash Cancer Hospitals
India	Mumbai	Sushrut Hospital
India	Bihar	Paras HMRI Hospital
India	New Delhi	Jamia Hamdard Hospital
India	Mysore	Radiant Global Solutions Hospital
India	Nanded	Jija Mata Hospital
India	Coimbatore	Aswin Hospital
India	Madurai	Guru Hospital
India	Gurgaon	Paras Hospital
India	Vasundhara	Vasundhara Hospital
India	Shanti	Shanti Hospital

Acute Care (Suzzara Hospital)

The management of Suzzara Hospital is an experimental scheme (pursuant to Art. 9 bis of Italian Legislative Decree 502/92) set up following a successful tender for a public concession contract made in November 2004 by Ospedale di Suzzara S.p.A., a 99.9% owned subsidiary of the KOS S.p.A.. The concession is for a period of 18 years and regards full management of the hospital in question as well as its refurbishment and compliance with applicable laws and regulations.

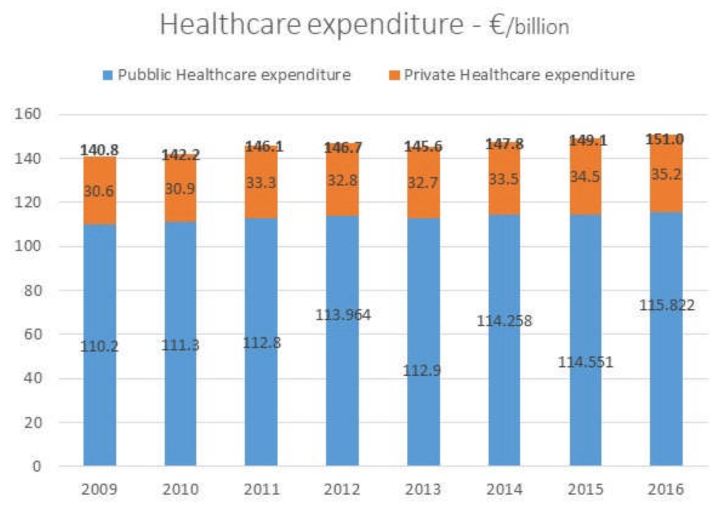
The management of Suzzara Hospital is Italy's first experimental case of a public sector hospital being managed by a private sector company. The Group is pursuing the following objectives:

- turning around a loss making situation and making the hospital profitable;
- complying with accreditation standards and safety and fire prevention regulations;
- providing the hospital with the resources needed to ensure that it remains technologically and professionally up to date;
- making new investments in equipment, diagnostic technology, healthcare technology and extraordinary maintenance as well as setting up a new Rehabilitation Unit;
- helping the Hospital to attract more patients;

This Hospital has a total of 123 beds (30 of them dedicated to functional rehabilitation) and is accredited with the Italian National Healthcare System for both inpatient care and outpatient care services.

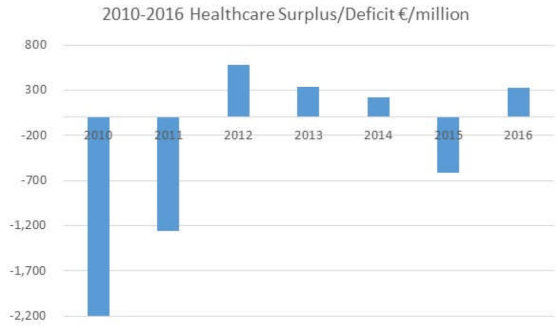
Overview of the healthcare sector

In 2016, current Italian NHS healthcare expenditure increased by around 1.3% compared to 2015 (to Euro 151 billion in 2016 from Euro 149.1 billion in 2015). The portion of NHS healthcare expenditure attributable to the Regions, the Autonomous Provinces and other entities amounted to Euro 115.8 billion with an increase of around 1.3% - this was a larger increase than in prior year and was in line with GDP growth; it represented around 6.9% (7% in 2015). The overall increase in healthcare spending in absolute terms in 2016 is mainly due to the public sector rather than to the private sector.
NELLA TABELLA: Modificare "pubblic" in "public



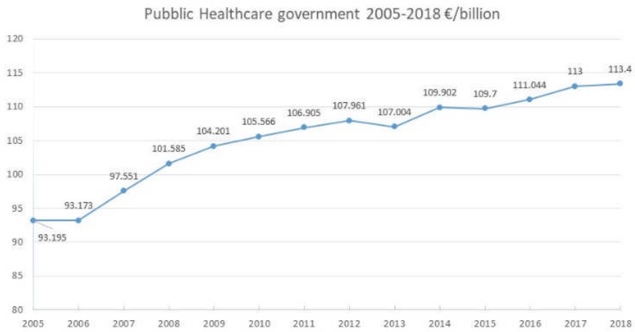
Source: OASI Report 2017

Current private expenditure – broken down into out-of-pocket healthcare expenditure (wholly or partially borne by households) and healthcare expenditure brokered by insurance companies – amounted to Euro 35.2 billion, a 2% increase compared to prior year (albeit a smaller increase than in the prior year). The parallel year on year increases for three consecutive years in both public and private healthcare expenditure against a background of downsizing of supply and public expenditure (waiting lists etc.) and growing demand for healthcare services shows that private expenditure has not completely replaced public expenditure. In actual fact, the increase in private healthcare expenditure does not solely depend on the reduction in public sector supply but also on household income and spending power. Therefore, it seems that there has not been an effective increase in healthcare consumption but, rather, there is a tendency not to use treatment, especially preventative treatment, given the tighter reins on household budgets.
Italian healthcare finances show a surplus of Euro 329 million for 2016 and have been positive in the last five years despite the deficit recorded in 2015 because of one-time non-recurring expenses.



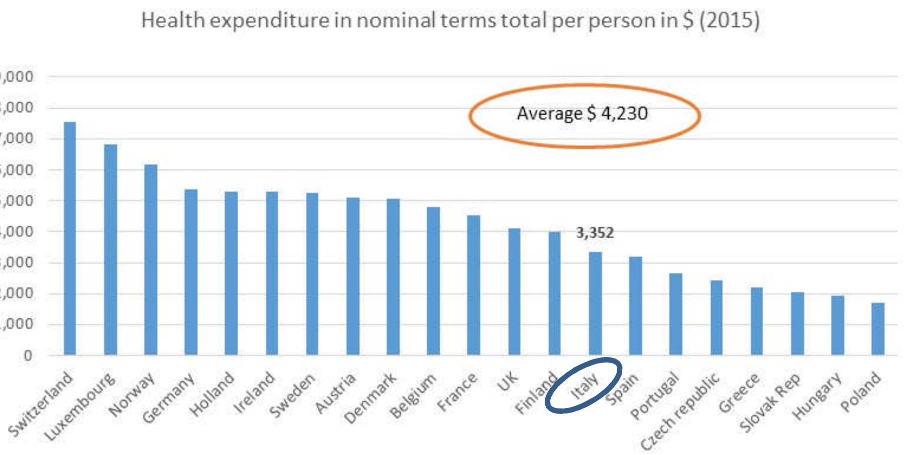
Source: OASI Report 2017

Despite the overall surplus, there are regional variations. Some regions still show deficits (e.g. Sardinia) while other regions with Debt Rescheduling Plans ended 2016 with a surplus, including Lazio, Sicily and Campania (Euro 547 million, Euro 143 million and Euro 74 million, respectively).
The new Finance Act for 2018 provides for a reduction (established by the Legislative Decree of 5 June 2017) of Euro 0.6 million in NHS Public Financing for years 2018 and 2019. Public financing for these two years will amount to Euro 113.4 million and Euro 114.4 million, respectively; this follows the failure by Regions with special status and the Autonomous Provinces to cover healthcare expenditure cuts introduced by the government in 2016.



Sourcee: Health Ministry and Meridian Sanità Report for 2017

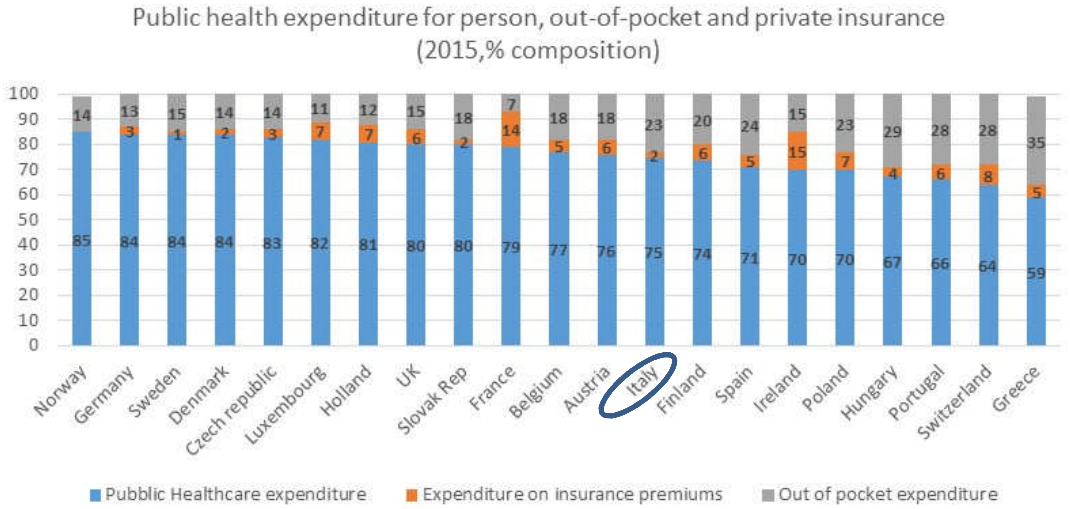
In terms of the incidence of healthcare expenditure on GDP, the Italian National Audit Office (*Corte dei conti*, Report on the financial management of local entities: Financial Year 2015, June 2017) notes that "healthcare expenditure has reached a level of sustainability in the financial and macroeconomic environment, given that: its 6.7% incidence on GDP in 2016 is expected by the DEF 2017 to reduce gradually over the next three years before reaching 6.4% of GDP in 2020; already, on a European level, as a percentage of GDP, Italian healthcare expenditure is only higher than that recorded in Poland, Spain, Greece and Portugal. It is the lowest among the major Eurozone economies and is almost two percentage points lower than in France (8.6% of GDP in 2015) and almost three percentage points lower than in Germany (9.4% in 2015). In 2016, per capita healthcare expenditure in Italy amounted to Euro 1,858, 1.3% higher than in prior year but still lower than in 2010 (Euro 1,866). Meanwhile, the 2015 figure of Euro 1,834 was around 35% lower than per capita expenditure in France (Euro 2,840) and almost 50% lower than the German figure (Euro 3,511).



Source: OASI Report 2017

Compared to the European average, Italy has a low, overall level of healthcare expenditure both in per capita terms and as a percentage of GDP. Moreover, cuts in healthcare spending have affected the percentage covered by the public sector – it now represents 75% of total expenditure less than in other European countries that operate a public National Health System (Germany 84%, France 79%, United Kingdom 80%).

Out-of-pocket healthcare expenditure averages 24.3% of total spending in Europe and less than 20% in all major European countries (France, Germany, Northern Europe), except for Italy, Spain, Portugal and Eastern European countries. In Italy, the percentage is fairly high (23%) with more than one fifth of healthcare expenditure in our country being borne directly by the patient. Private health insurance covers just 2% of total healthcare expenditure in Italy.



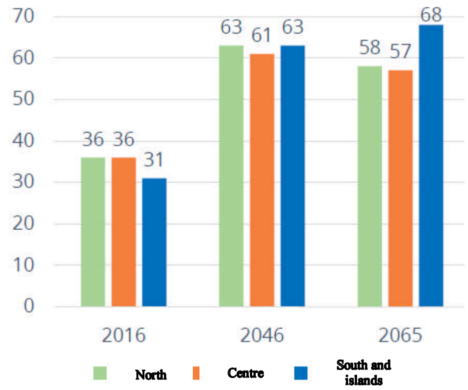
Source: OASI Report 2017

Furthermore, compared to leading European countries, Italy has a very low level of growth in public healthcare expenditure. This is mainly because of policy on expenditure containment and the constant cuts that have been made. Between 2010 and 2016, public healthcare expenditure fell by an average 0.1% per year in Italy while it increased in the United Kingdom (+5.1%), Germany (+3.9%) and France (+2.3%); in Italy, the trend of reducing healthcare expenditure was reversed from 2014 onwards.

Below inflation increases in healthcare expenditure in the last five years, forecast healthcare expenditure increases of less than GDP growth in the next three years and total Italian healthcare expenditure lower than that in other European countries highlight the fact that while public healthcare finances are largely healthy (surplus of Euro 329 million in 2016), there is a need to invest once more in the healthcare sector in order to avoid the risk of going backwards in terms of care, prevention and quality.

Despite constant cuts in healthcare funding, slow growth in expenditure, the indirect replacement of private expenditure with private expenditure and clear signs that people are opting not to seek treatment, Italy not only remains the country with the highest longevity, it is also the country where there have been increases in the number of years lived in good health and with various levels of disability.

This increase in average life expectancy, together with the ongoing demographic shift and increasing emigration of young Italians to other countries is expected to bring about drastic changes in the elderly dependency ratio (i.e. the number of elderly people over 65 for every 100 people aged between 15 and 64 years of age) and an increase in demand that is currently only partially covered by the current supply of healthcare and long-term care.



Source: OASI from ISTAT data

In the next 30 years, the elderly dependency ratio is expected to be double (around 60 elderly people every 100 inhabitants aged 15-64 years) and the majority will have no children.

Change trends regarding the make-up of family groups show that, in the last five years, the number of couples with children has fallen while the number of couples without children and the number of people over 60 and living alone have increased; these last two categories now represent 53% of family groups. This highlights a potential reduction in the number of people able to act as informal caregivers who have, until now, helped out the healthcare and long-term care sector in Italy.

Demographic change and its consequences – increased demand for care related to old age and age-related illnesses that are not always acute, other than dementia and disability – will require greater attention in the medium-term and more support in terms of supply and funding.

Some of the key issues affecting the healthcare and assistance and elderly care sector are summarised below (*ISTAT and OASI Report*):

- Limited supply of beds with discrepancies from one region to another, long waiting lists for places in Nursing Homes and increase in number of salaried individuals as informal caregivers in place of children and relatives;
- The number of beds in almost all regions of Southern Italy is below the Italian average which, in turn, is below the average for major European countries;
- Estimated cover rate of healthcare and assistance services compared to potential needs of people unable to take care of themselves and disabled people is around 30%;
- In the various regions, there is now an established pattern of elderly people using hospital services which contrasts with expectations of healthcare plan; this means the replacement of the hospital with the home as a care setting has not taken place as expected;
- In 2015, 2.1 million over 65s were admitted to hospital, for a total of more than 3.2 million admittances. 30% of these admittances regards patients admitted to acute medicine departments on one of more occasions over a 12-month period without any form of structured care being put in place post discharge;
- The phenomenon of multiple hospital admittances is related to healthcare and assistance needs not necessarily involving acute problems or emergencies but resulting from chronic conditions or patients' inability to take care of themselves. These admittances represent hospital services potentially making up for the lack of alternative care or intermediate treatment. As a result, cases that should be dealt with in another setting are brought the hospital setting;
- More than 80% of all discharges from hospital see the patient return home and this highlights significant weaknesses in the proper and efficient handling of patients;
- Integrated Home Care ("*Assistenza Domiciliare Integrata* –ADI") is not yet an alternative, also because of the insufficient funds made available by the regions; the available figures are for 2013 and indicate a reduction in services;
- Faced with a gradual reduction in the number of beds for acute care and the number of days of hospital admittance, there has been no increase in the number of beds available in more intensive care facilities like Nursing Homes (defined as sub-acute beds or intermediate care or care homes);
- Local and district based care (out-patients, laboratories, residential and semi-residential facilities, ADI etc.) is mainly managed by accredited private sector providers, often alongside entirely private care services.

Therefore, for the over 65s, there is ongoing improper use of available healthcare. This is often because of a lack of appropriate services. The number of elderly people admitted for certain problems to hospitals ill-equipped to deal with those problems is on the rise and highlights unsatisfied care requirements. Moreover, upon discharge, patients go back home because of a lack of available places in residential care facilities. The home care services offered recently by many regions has failed to develop because of quality related issues and a lack of dedicated public funding.
Future government policy will have to focus on overhauling and innovating service models while reorganising and relaunching the long-term care sector. This will have to be done in such a way that it becomes more structured and capable of dealing with patients in an ethical manner while providing them with access to the right kind of care. The medium-term objective must be to deal with care problems regarding population ageing related conditions and ensuring they are handled by care facilities other than hospitals.

Cancer care and diagnostic services

In Italy, the main market for Medipass's business, "Fully Managed Services" for private and public sector hospitals have achieved a good level of penetration, especially in areas with a high technological content e.g. management of laboratories performing analysis, haemodynamics laboratories, radiotherapy and nuclear medicine departments (the last named are handled by Medipass).
The major investment needed to purchase technological equipment favours the use of models of outsourced services which make it possible to spread the financial commitment over a number of years while, at the same time, providing certainty as to when technological equipment will come into operation and that it will be used effectively and to high quality standards.
The need to update technology to embrace the most recent medical and scientific discoveries and renewal of high-tech equipment currently in use – in Italy, existing equipment is older than the European average – together with restrictions on capital expenditure and the hiring of qualified personnel by public sector operators form the basis for further market growth and development.
In this context, the Diagnostic Imaging and Cancer Care and Diagnosis sector is expected to be particularly important, especially in the field of radiotherapy where there has been constant technological innovation in recent years and where the largest gaps are to be found between demand for services from cancer patients and supply of the most modern and suitable treatment methods.

"MES" Services were first created in the 1990s along with the spread of other major Project Finance initiatives in the hospitals segment in the United Kingdom. They later gained hold in other European countries (Sweden, Finland, the Netherlands, Denmark) with significant examples of hospitals that outsourced the supply and management of all of their Hi-Tech equipment and services were a significant number of years.

In Italy, however, "MES" remains at an embryonic stage and has mainly applied to build new hospitals on a Project Financing basis: the characteristics of the model adapt to the necessary timescale, the economic and financial structure and the need to transfer the risk involved in this type of project.

The United Kingdom has seen the greatest spread of outsourced technology and hi-tech services, especially with regard to Advanced Diagnostic Imaging, Cancer Treatment and Diagnostics, analysis laboratories etc. with a shift towards smaller scale and shorter MES contracts (e.g. from management of all of a hospital's hi-tech services and equipment to management of hi-tech services in specific departments; from 30 year contracts to 10-20 year contracts). After a period of slowdown/adaptation, market demand has begun to grow once again, also thanks to government policy designed to encourage and simplify technological outsourcing: this includes the new Code on Competitive Tendering which provides clearer regulation of Public Private Partnerships (PPP).

Moving on to the business in India, we must highlight the fact that healthcare in that country is undergoing a period of major growth and development. The Indian Healthcare Industry was worth USD 55 billion in 2010 but is expected to grow by 15% a year in the coming years to reach a figure of USD 160 billion in 2017. Much of this growth will be channelled towards the private healthcare sector thanks to:

-a severe shortage of hospital beds
- growing demand for quality services and greater spending power;
- the spread of illnesses typical of advanced countries (e.g. diabetes, asthma, cancer);
- growth in medical tourism;
- increased penetration by private medical insurance companies.

Around 20% of available beds belong to Private Hospital Chains, or corporate hospitals, but this percentage is growing fast. These are technologically advanced hospitals with good skills and personnel and include Apollo Hospitals (65 hospitals in India with others in Africa and the Gulf Area), Max Healthcare, Fortis and Sterling. These companies operate

mainly with private clients who pay “out-of-pocket” (in advance for radiotherapy services) and often belong to international shareholders (venture capital, insurance companies, industrial companies from other business segments); they are run by management teams with international experience. Some of these chains are listed on the Indian Stock Exchange. Demand for treatment and hospitalisation always exceeds supply. The various brands use different outsourcing models, based on revenue sharing. There are clinical brands (oncology, laboratory) within the Hospitals belonging to the various groups. For example, the Comprehensive Blood and Cancer Center brand belongs to Sterling.
The market for outsourced services is growing fast, both in corporate hospitals (of interest to the Group) and in public hospitals because there is great need for technology and the relevant skills. In many cases, the Hospitals where the KOS Group offers its services have the only equipment available to a catchment area numbering millions of patients. Personnel costs and costs for services are very low.

Competitive positioning

During the year, several deals took place on a European level: the Korian Group of France completed the acquisition of the Senior Assist Group in Belgium with 1,000 beds destined for the care of the elderly. Korian has also been consolidating its presence in Germany with plans for greenfield development and three new businesses acquired at the end of the year. In 2017, the other French colossus, the Orpea Group, completed an acquisition in the Czech Republic (Anavita Group, 932 beds) becoming the leading operator on the Residential Care Facility market. Meanwhile, in the rehabilitation and post-acute care segment, it has acquired the DR Wagner Group of Austria with its 1,812 beds. Still in Europe, Orpea is building facilities with a total of 1,000 beds in Portugal, the country with the highest percentage of over-75s in Europe. Outside Europe, in addition to its presence in China, Orpea plans to build facilities with a total of 2,000 beds in Brazil’s major cities. For its business development in Portugal and Brazil, the Group has established a joint venture with SIS Group, a real estate operator that has already invested almost exclusively in the private healthcare and long term care segment.

The **nursing homes for the elderly sector** is highly fragmented. The public sector presence is strongly concentrated in the North of Italy and in the Marche, Umbria and Basilicata regions. In the rest of the country, the non-profit sector provides most services with a varying presence of private businesses. The main private operators in the sector, in addition to the KOS Group, are Segesta 2000 (Korian-Medica Group – France), AETAS (Korian-Medica Group - France) and Orpea Italia (Orpea Group - France).
The specific **psychiatric rehabilitation** sector is also dominated by public sector facilities and facilities managed by church related bodies and the presence of accredited private sector businesses is still very limited. The residential facilities are therapeutic communities with a maximum of 20 beds for high, medium, low intensity rehabilitation.

The **functional rehabilitation facilities** sector is also characterised by a significant fragmentation of the services managed by individual public healthcare organisations or small businesses, both in terms of types of service offered and geographical area covered. Like last year, the main operators are: Fondazione Maugeri, Fondazione Don Gnocchi, the San Raffaele Group and KOS.

The **private hospital sector** is dominated by a few large groups: San Donato (owned by businessman Giuseppe Rotelli), Villa Maria Group (owned by the Sansavini family), Humanitas (Techint Group). KOS has strengthened its presence in this sector thanks to a partnership initiative with Lombardy region and Local Entities to manage Suzzara Hospital (Mantua) under an 18-year concession. The private management experiment at Suzzara Hospital derived from the need to maintain and improve a hospital that was strongly desired by the community and the surrounding area while combating declining activity, high operating costs and the need for investments in safety and technology.
Other examples of private sector healthcare management in Italy include Nuovo Ospedale di Sassuolo, Fondazione San Pellegrino di Castiglione delle Stiviere, Ospedale Ortopedico di Omegna and Nuovo Ospedale di Mondovì (Alba).

In the **Cancer Treatment and Diagnostic Services** sector, we must highlight the high level of investment needed to purchase the technology used in the services, as well as the high level of clinical, technical and operational know-how needed. These constitute significant barriers to entry into this sector on all markets where the Group is present.

However, there are sufficient current providers to keep and maintain a healthy level of competition, especially with regard to the supply of medical technology. Furthermore, the economies of scale resulting from increasing volumes of purchases (far greater than those of a single healthcare facility) enable Medipass to offer its clients highly competitive outsourced services.

In Italy, Medipass is one of the leading providers of Fully Managed Services in the field of Advanced Diagnostic Imaging and Cancer Treatment and Diagnostics. Other large players operating on the market alongside Medipass include **Alliance Medical** (Italian subsidiary of the Life Healthcare Group) and **Fora** (although it focuses more on laboratory analysis services). On the market as extended to include related services, there is a trend towards the creation of conglomerations of Clinical Engineering, Hospital Services and Hi-Tech Maintenance business with the impetus coming from financial or industrial investors which are combining businesses in order to establish pan-European Groups dedicated to Hi-Tech equipment management in the healthcare segment (e.g. Hospital Consulting which was acquired by the Vamed Group; Asteral, Mesa, IBSL and EBM acquired by the Pantheon Group). Medipass is the only operator with a significant presence in the Cancer Treatment and Diagnosis segment, focusing on Radiotherapy services.

In the United Kingdom, Medipass Healthcare's main competitors include:

- **CPUK**, private group which operates private Radiotherapy and Chemotherapy centres.
- **MESL** a niche financial player which takes part in MES tenders put out by the NHS. It has an agreement with BMI (private hospital group) in relation to the supply of clinical services for Gamma Knife treatment;
- **UME** has a major MES contract at Bromley Hospital (won in 2002), where it collaborates with GE. In 2006, UME was part of the Consortium that was awarded an MES at Peterborough Hospital but it was replaced by Asteral (preferred by the Hospital);
- **OEMs** (i.e. manufacturers of Technology like Siemens, GE and Philips) actively compete on the market thanks to their direct control over technology and extensive know-how, even though they are not independent vendors.

So far, in India, there are no well-established operators offering outsourced management of hi-tech services on a Fully Managed Services and/or MES basis. Clearmedi is probably the first and leading player in the sector.

Operating Performance

The Group is organised, for internal management reporting and IAS/IFRS purposes, into two SBAs (*Strategic Business Areas*), which, in turn, are broken down into three operating segments.

The structure by SBA and operating segment is detailed in the table below:

Strategic Business Area	Operating segment	Activity
Long term care	Long term care	Management of nursing homes for the elderly, management of functional and psychiatric rehabilitation facilities, management of psychiatric treatment communities and outpatient centres.
Hospital services / Management	Acute care	Management of Suzzara Hospital under a concession
	Cancer treatment and diagnostics	Provision, on an outsourced basis, of advanced high tech diagnostic and radiotherapy services within hospital facilities and management of approved radiology centres and health centres

On 1 July, Residenze Anni Azzurri S.r.l. was merged into Istituto di Riabilitazione S. Stefano S.r.l. The latter company was renamed KOS Care S.r.l and operates in eight Italian regions under the following brands: Santo Stefano (rehabilitation), Anni Azzurri (nursing homes) and Neomesia (psychiatry). Following these changes to the organisational structure, the Group's functional rehabilitation, psychiatric rehabilitation and nursing home management activities have been included in the Long term care SBA. Furthermore, as a result of the acquisitions and extraordinary transactions carried out in 2017 and 2016, the figures at 31 December 2017 are not perfectly comparable with prior year. Therefore, in order to provide a better understanding of the 2017 financial statements and to make them more comparable with the 2016 figures, the most significant transactions that have taken place in the last two reporting periods are reported below.

The main transactions in **2016** were as follows:

Long Term Care:

In December 2015, a contract was signed for the sale of the business regarding the nursing home in Archè di Loveno (CO). The facility was definitively sold with effect from 1 May 2016 upon satisfaction of the condition precedent regarding the transfer of NHS accreditation to the new operator.

In 2016, after the existing property became unsuitable for use, the Tuga facility (Psychiatry) was transferred from the Municipality of Borzonasca to Carcare without affecting the accreditation status with the Regional Health System. A good occupancy level has been maintained.

The launch of the “Cit Turin” facility in Turin continued in 2016 and, already in the first few months of the year, good occupancy levels had been achieved.

During the year, the insourcing of healthcare and other services at the former Argento Vivo facilities in Bollate (MI) and Milan was completed; these services were previously rendered by an external cooperative under a Global Service contract.

In January, the acquisition of the “Casa Marchetti” business – a facility with 10 beds for acute treatment – was completed, through subsidiary Sanatrix Gestioni S.r.l..

In July, Istituto di Riabilitazione Santo Stefano S.r.l. acquired the “Barbarano” nursing home in Rome from Imato S.r.l. in liquidation and with a company voluntary agreement, following a successful bid in the auction organised by the Courts in Turin. The facility has Italian NHS accreditation and is authorised to operate with a total of 118 beds. Completion of the acquisition is subject to approval by Lazio Region which was expected in the final quarter of 2016.

In September, Istituto di Riabilitazione Santo Stefano S.r.l. acquired 100% of the quota capital of Villa Jolanda S.r.l., owner of a psychiatric rehabilitation facility with 74 authorised beds and 6 unauthorised beds in the Municipality of Maiolati Spontini (AN).

Hospital Management/Services

Cancer treatment and diagnostic services

Through its subsidiary Medipass Healthcare, the Group has been selected as preferred bidder in a public tendering procedure for a contract to supply, maintain and operate the hi-tech equipment in the radiotherapy department of Norfolk and Norwich University Hospital Foundation Trust (NNUH). The service will commence subject to a successful outcome of the administrative process that has to be followed before the definitive contract is signed.

On 10 June 2016, Veneto Region signed a settlement agreement with the PTC Veneto consortium (of which Medipass Srl is a member). The agreement provides for compensation of € 5,820 thousand to the consortium members for failure to respect contractual agreements providing for the construction of Proton Therapy Center in Mestre. Medipass S.r.l.’s € 1,234 thousand share of the compensation was paid in September upon completion of the approval process by the Italian National Audit Office (“*Corte dei Conti*”).

During the third quarter of 2016, the Group acquired non-controlling interests (45%) in Medipass Healthcare Leeds & Belfast Ltd and said company is now wholly owned by the Group.

Meanwhile, the main transactions in **2017** were as follows:

Long Term Care:

In January, through subsidiary Sanatrix Gestioni S.r.l., the Group completed the acquisition of Laboratorio Salus Macerata S.r.l., a clinical analysis laboratory accredited with the Italian National Health Service and operating in Macerata. The company was later merged into Sanatrix Gestioni S.r.l.

The remaining 4% of Polo Geriatrico Riabilitativo S.p.A. was acquired in April 2017 and it became 100% owned by Residenze Anni Azzurri S.r.l. (now Kos Care S.r.l.)

In the second quarter of 2017, Istituto di Riabilitazione S. Stefano S.r.l. (now Kos Care S.r.l.) absorbed Villa Jolanda S.r.l., a company it had acquired in 2016.

In July 2016, Istituto di Riabilitazione Santo Stefano S.r.l. (now KOS Care S.r.l.) acquired the “Barbarano” nursing home in Rome from Imato S.r.l. in liquidation and with a company voluntary agreement, following a successful bid in the auction organised by the Courts in Turin. The facility has Italian NHS accreditation and is authorised to operate with a total of 118 beds. Once the approval of Lazio Region was obtained, the transaction was completed with effect from 1 April 2017.

On 3 July, the Group acquired a 100% investment in Psicogest S.r.l., a company which, through a facility called “Villa Maura”, operates a highly intensive Psychiatric Treatment Community with 20 inpatient beds and 15 day centre places in Pavia. Psicogest was later merged through incorporation into KOS CARE S.r.l.

In December, the Group acquired 100% of Casa di Cura Villa Margherita S.r.l., a company involved in functional rehabilitation which operates two facilities with a total of 282 beds in the Municipalities of Arcugnano (VI) and Benevento.

Hospital Services/Management

Cancer Treatment and Diagnostic Services

In July, Medipass acquired Ecomedica S.p.A., a company based in Empoli, Tuscany, which specialises in diagnostics and radiotherapy with annual revenue of around € 9 million.

Clearmedi Healthcare Ltd has signed two contracts at the following hospitals:

- Shanti Mukand Hospital Delhi: management of all services (radiotherapy, surgery, chemotherapy) in the oncology and radiotherapy departments, including all medical, technical and administrative personnel, for a renewable contractual period of 10 years. The contract provides for the replacement of all existing technological equipment (Linac 1,5T, MRI and Pet CT).

- Family Healthcare Hospital Delhi: contract for the clinical and technological management of the entire hospital which will be renamed Clearmedi Hospital; includes all related personnel and is for a period of 20 years. The contract provides for the purchase of new equipment (CT, Linac) and the upgrading of other equipment by the end of year five.

Clearmedi Healthcare Pvt Ltd. has also signed an agreement with Kotak Mahindra Bank for new medium/long-term financing for development purposes (purchase of medical equipment and to cover any working capital requirements) for a total of INR 900 million (around €12.3 million) for a period of 7 years.

Suzzara Hospital

In December 2012, Azienda Ospedaliera Carlo Poma unilaterally terminated the contract from 1 January 2013, citing financial and budget problems that have never been documented. Its letter was followed by an exchange of correspondence which highlighted two contrasting interpretations of the contractual safeguards: Azienda Ospedaliera Carlo Poma confirmed its initial letter while Ospedale di Suzzara stated that the contractual safeguards had not been properly applied and repeated that the contract was valid until 31/12/2013.

Until such time as the dispute is concluded, the Company has suspended payment of the invoices issued by Azienda Ospedaliera Carlo Poma using as a reference the personnel costs relating to 2013 in excess of the February 2011 agreement. This only regards seconded personnel as SUMAI ("Specialist medical") personnel continues to be charged at effective cost.

The years 2016 and 2017 saw the continuation of meetings that led Mantua Health Authority, in March 2017, to make a request to amend the Concession which has been sent to Lombardy Region for its approval. Given work already done and assuming further work to make the Hospital compliant with anti-seismic regulations, the request involves extending the Concession period for eight more years. In November 2017, Lombardy Region referred the decision back to Mantua Health Authority and a decision is now awaited.

Corporate Area and shared services

On 6 April 2017, KOS SpA signed a new syndicated bank non-current committed borrowing facility for a total of Euro 75 million for a period of five years with ING Bank NV and Natixis S.A. KOS SpA may use this facility solely to finance the investments and acquisitions made by its subsidiaries by granting intercompany loans to the subsidiaries making such acquisitions and/or investments.

In July 2017, KOS Spa signed a Group financing agreement for a total of Euro 200 million with a syndicate of banks and used the proceeds to unwind an existing syndicated loan of Euro 100 million (initial loan amount Euro 120 million). In October, KOS issued two bond loans by means of private placements subscribed by institutional investors for a total of Euro 99 million; the proceeds were used to repay the same amount of the bank loan arranged in July 2017.

KOS Servizi S.c.a r.l. has continued with the integration and rationalisation of support services (ICT, procurement, cleaning, logistics, etc) provided to Group companies. In 2017, it also launched new catering services at a number of operating facilities.

The following tables set out the Group's statement of financial position and income statement highlights as at and for the year ended 31 December 2017:

KOS GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(eur/000)	31/12/2017	31/12/2016
NON CURRENT ASSETS	630,897	580,299
CURRENT ASSETS	161,631	152,314
TOTAL ASSETS	**792,528**	**732,613**
EQUITY	293,553	276,363
- NON-CONTROLLING INTERESTS	6,547	5,852
- OWNERS OF THE PARENT	287,006	270,511
NON CURRENT LIABILITIES	308,857	250,700
CURRENT LIABILITIES	190,118	205,550
TOTAL LIABILITIES AND EQUITY	**792,528**	**732,613**
NET FINANCIAL DEBT	**(237,145)**	**(213,615)**

KOS GROUP CONSOLIDATED INCOME STATEMENT HIGHLIGHTS

(eur/000)	2017	2016
REVENUE	490,559	461,074
EBITDA	87,798	82,430
EBIT	53,766	48,650
PRE-TAX PROFIT	42,084	38,208
PROFIT FOR THE YEAR INCLUDING NON-CONTROLLING INTERESTS	**30,692**	**24,583**
- PROFIT FOR THE YEAR ATTR. TO NON-CONTROLLING INTERESTS	1,643	1,212
- PROFIT FOR THE YEAR ATTR. TO OWNERS OF THE PARENT	29,049	23,371

In 2017, Group revenue totalled € 490,559 thousand against € 461,074 thousand in 2016.

The table below shows the revenue contributed by each SBA:

(eur/000)	2017	%	2016	%	Var.
Long term care	398,656	81%	381,607	83%	17,049
Acute Care	36,774	7%	35,936	8%	838
Cancer treatment and diagnostic services	55,091	11%	43,509	9%	11,582
Other	38	0%	22	0%	16
Total	**490,559**	**100%**	**461,074**	**100%**	**29,469**

The increase in revenue is mainly due to:

- An increase in the Long term care segment compared to prior year thanks to acquisitions during the year: Villa Maura (+€ 793 thousand), Villa Jolanda S.r.l. (+€ 2,883 thousand), the business comprising the "Barbarano" nursing home (+€ 3,568 thousand), Laboratorio Salus S.r.l. (+€ 731 thousand) and Villa Margherita S.r.l. (+€

1,547 thousand) plus a favourable mix of occupancy/average tariffs. These increases were partially offset by the negative effect of the sale of the Loveno nursing home in 2016 (-€ 441 thousand);

- Revenue in the cancer treatment and diagnostics segment which increased by € 12,420 thousand compared to prior year, mainly thanks to new services launched during 2017 by Medipass S.r.l. and Clearmedi Healthcare Pvt Ltd as well as to the acquisition of Ecomedica S.p.A. which had a positive impact of € 4,082 thousand.

EBITDA for 2017 amounts to € 87,798 thousand compared to € 82,430 thousand in 2016. The total effect on EBITDA of changes in the scope of consolidation after the aforementioned acquisitions and business developments amounts to € 2,888 thousand.

In 2017, amortisation, depreciation and writedowns totalled around € 34,032 thousand, up on the € 33,780 thousand recorded in 2016. The increase is partially related to the acquisitions described above and to the opening of new facilities (€ 688 thousand) and partially due to effects regarding investments made in 2016 which became fully operational in 2017. We also highlight impairment adjustments of € 190 thousand made to certain assets whose value in use was lower than their net carrying amount.

Results by business area are shown below:

SBA	LONG TERM CARE		HOSPITAL MANAGEMENT				CORPORATE AND OTHER COMMON SERVICES		IC ELIMINATIONS		Total	
			ACUTE CARE		Cancer treatment and diagnostic services							
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Third party revenue	398,656	381,607	36,774	35,936	55,091	43,509	38	22	-	-	490,559	461,074
Intercompany revenue	1,263	15	15	-	52	180	23,515	21,540	(24,845)	(21,735)	-	-
Total revenue	**399,919**	**381,622**	**36,789**	**35,936**	**55,143**	**43,689**	**23,553**	**21,562**	**(24,845)**	**(21,735)**	**490,559**	**461,074**
EBITDA	71,275	67,215	2,750	2,863	17,543	15,550	(3,770)	(3,198)	-	-	87,798	82,430
EBIT	51,549	47,326	355	510	7,059	5,736	(5,197)	(4,922)	-	-	53,766	48,650
NET FINANCIAL EXPENSES											(11,682)	(10,442)
INCOME TAXES											(11,392)	(13,625)
PROFIT FOR THE YEAR											30,692	24,583
PROFIT FOR THE YEAR ATTR. TO NON-CONTROLLING INTERESTS											1,643	1,212
PROFIT FOR THE YEAR ATTR. TO OWNERS OF THE PARENT											29,049	23,371

SBA	LONG TERM CARE		HOSPITAL MANAGEMENT				CORPORATE AND OTHER COMMON SERVICES		IC ELIMINATIONS		Total	
	LONG TERM CARE		ACUTE CARE		Cancer treatment and diagnostic services							
FINANCIAL POSITION DATA	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Property, plant and equipment*	266,265	270,757	7,310	8,183	53,877	48,023	352	366			327,804	327,329
Intangible assets	237,957	212,865	273	302	37,870	19,591	580	446			276,680	233,204
Other non current assets	2,316	2,305	36	36	8	8	24,053	17,417			26,413	19,766
Assets held for sale											0	0
Current assets	75,512	73,416	996	804	26,692	18,614	58,431	59,480			161,631	152,314
Total assets	**582,050**	**559,343**	**8,615**	**9,325**	**118,447**	**86,236**	**83,416**	**77,709**	**0**		**792,528**	**732,613**
Equity							293,553	276,363			293,553	276,363
Non current liabilities	25,204	22,706	543	110	2,020	1,249	281,090	226,635			308,857	250,700
Liabilities held for sale											0	0
Current liabilities	107,773	100,164	12,150	11,860	20,284	16,393	49,911	77,133			190,118	205,550
Total liabilities	**132,977**	**122,870**	**12,693**	**11,970**	**22,304**	**17,642**	**624,554**	**580,131**	**0**		**792,528**	**732,613**

* Including investment property

Long term care

Third party revenue for the year ended 31 December 2017 amounted to € 398,656 thousand (+4.5% compared to € 381,607 thousand in 2016). EBITDA amounted to € 71,275 thousand, up by 6% on € 67,215 thousand in 2016. As a percentage of revenue, EBITDA increased slightly from 17.6% in 2016 to 17.9% in 2017 mainly because of the full level of operations for nursing homes that opened in 2016.

Hospital management/services

In the Hospital Management SBA, the KOS Group ended the year with revenue totalling € 91,865 thousand (€ 79,445 thousand in 2016) including € 36,774 thousand in the acute care operating segment and € 55,091 thousand in the cancer treatment and diagnosis sector. EBITDA amounted to € 20,293 thousand (+10.2% on € 18,413 thousand in 2016).

Consolidated EBIT amounted to € 53,766 thousand against € 48,650 thousand in 2016. The increase is mainly due to the full-year contribution of acquisitions made in 2016 and to the new acquisitions made in 2017.

In 2016, net financial expenses totalled € 11,682 thousand against € 10,442 thousand in 2016. This caption includes adjustments of € 231 thousand to the value of financial assets (€ 100 thousand in 2016) and dividends received of € 33 thousand (€ 74 thousand in 2016).

In order to improve current cash flows between Group companies, the KOS Group decided to implement a centralised cash pooling system for all Group companies. This decision was aimed at offsetting respective cash and debt balances with clear benefits for the Group and the individual companies in terms of increased and more flexible available credit.

Income taxes amounted to € 11,392 thousand, less in absolute terms than in 2016. They accounted for 27% of the pre-tax profit, a decrease compared to 35.7% in 2016. It should be recalled that the IRES rate was reduced from 27.5% to 24% with effect from 2017.

In addition, the non-deductibility of certain personnel expense means that IRAP significantly increases the effective consolidated tax rate compared to the theoretical rate of 27.9% (24% IRES and 3.9% IRAP).

As at 31 December 2017, the Group had 6,421 employees (5,560 employees at 31 December 2016).

Capex for the year includes ordinary capex and capex to comply with laws and regulations (€ 21.8 million) and capex on business development/expansion (€ 16.2 million). Details of the business development capex during the year are provided below:

In the **Long Term Care SBU**:

- € 0.2 million relates to down payments made on the purchase of two plots of land, in the provinces of Verona and Brescia, on which the Group plans to build two Nursing Homes once planning permission has been obtained;
- € 1.3 million has been invested on the construction of a facility in the Municipality of Campofilone;
- € 2.2 million relating to the construction of a building to house a 120-bed Nursing Home in the Municipality of Vimercate;
- € 2.2 million regarding other capex incurred by the Group during 2017 to develop existing facilities;

In the **Hospital Management/Services SBU**:

- € 10.3 million relating to new equipment installed at client hospitals, management of whose diagnostics services has been contracted to subsidiaries Medipass S.r.l. and ClearMedi Health Care Ltd;

On a consolidated level, intangible assets have increased mainly because of the acquisitions made in 2017: Ecomedica (€ 18,262 thousand), the "Barbarano" business (€ 2,770 thousand), Villa Margherita S.r.l. (€ 18,891 thousand) and the companies Psicogest Srl and Laboratorio Salus S.r.l. (subsequently merged into KOS Care S.r.l. and Sanatrix Gestioni S.r.l., respectively) (€ 3,323 thousand), as only partially offset by the exchange rate effects of translation into Euro of financial statements prepared in other currencies (€ 212 thousand) and by impairment adjustments to goodwill relating to companies Medipass Leeds and Medipass Belfast (€ 617 thousand).

Trade working capital amounted to € 31,235 thousand at 31 December 2017, higher than the figure of € 23,322 thousand at 31 December 2016. The increase is mainly due to higher volumes and to the favourable pattern of collections and payments at the end of the two years. We also highlight certain payment delays regarding a certain type of "out of Region" patients which are no longer billed to the Marche region but to the respective Regions of origin of the patients.

The Group's net financial debt amounted to € 237 million at 31 December 2017 against € 214 million at 31 December 2016. The increase of around € 23 million in net financial debt is mainly due to: (i) the distribution of reserves of around € 13 million; (ii) acquisitions during the year of around € 45 million; (iii) changes in net working capital as partially offset by a reduction in debt of around € 10 million thanks to the sale of a property in Fontanellato (Centro Cardinal Ferrari) and cash flows from operating activities.

The Group's financial position includes: (i) cash and cash equivalents of € 32.8 million; (ii) financial assets arising on the measurement of derivatives and non-recourse factoring of € 17.4 million; (iii) short-term borrowing (advances on invoices and bank overdraft) of € 3.3 million while total available short term credit facilities amount to € 56.6 million (i.e. there is headroom of € 53.3 million); (iv) medium/long term debt of € 283.3 million. The Group also has the possibility of using additional medium/long term lines of credit totalling € 151.6 million.

The following table shows the main lines of credit with details of their availability at 31 December 2017:

(eur/million)	31/12/2017 Total	Utilized	Available	31/12/2016 Total	Utilized	Available
Short-term Lines ("Uncommitted"/at sight)	56.6	3.3	53.3	55.3	1.7	53.6
Long-term ("Committed"/contractualized)	434.9	283.3	151.6	282.1	258.7	23.4
Total	491.5	286.6	204.9	337.5	260.4	77.0

Details of the net financial debt at 31 December 2017 are shown below:

(eur/000)	31/12/2017	31/12/2016
(A) Cash and cash equivalents	32,820	38,131
(B) Other cash equivalents	-	-
(C) Liquidity (A) + (B)	**32,820**	**38,131**
(D) Securities, derivative financial instruments and other financial assets	17,401	9,814
(E) Total current financial assets (C) + (D)	**50,221**	**47,945**
(F) Payables to banks for account overdrafts	3,330	1,727
(G) Payables to banks for collateral loans	7,171	5,763
(H) Payables to banks for loans	1,312	33,031
(I) Bond loans	675	-
(J) Payables for finance leases	10,863	10,371
(K) Payables to other financing entities	190	286
(L) Derivative financial instruments	718	1,094
(M) Current financial debt (F) + (G) + (H) + (I) + (J) + (K) + (L)	**24,259**	**52,272**
(N) Net current financial position (M) - (E)	**(25,962)**	**4,327**
(O) Payables to banks for collateral loans	37,213	33,379
(P) Payables to banks for loans	64,758	89,245
(Q) Bond loans	98,308	-
(R) Payables for finance leases	61,685	85,329
(S) Payables to other financing entities	1,143	1,335
(T) Non current financial debt (O) + (P) + (Q) + (R) + (S)	**263,107**	**209,288**
(U) Net financial debt (N) + (T)	**237,145**	**213,615**

At 31 December 2017, parent company KOS S.p.A.'s net financial debt was € 46 million, excluding receivables/payables with subsidiaries of € 77.7 million.

The reporting period ended 31 December 2017 resulted in a profit for the year attributable to the owners of the parent of Euro 29,049 thousand and a profit for the year attributable to non-controlling interests of €1,643 thousand, resulting in a total profit for the year of € 30,692 thousand.

Use of financial instruments

The Group has entered into derivative contracts to hedge the interest rate risk and their residual nominal value at 31 December 2017 was around € 70.8 million (€ 65.2 million at 31 December 2016); the mark-to-market value of these contracts was negative by around € 0.7 million (negative by € 1.1 million at 31 December 2016) and is included in the consolidated net financial debt.

With a view to the forthcoming bond issue (the issue took place on 18 October 2017), on 2 August 2017, KOS SpA signed a Pre Hedge contract, a swap with the following characteristics: *trade date* 2 August 2017, *effective date* 31 October 2017, *termination date* 31 October 2024, notional amount € 25 million, swap rate 0.6250%. The derivative was closed in mid-October at the same time as the bond issue. Its FV at closing date was € -150 thousand. As it was a hedging instrument, FV at the closing date was recorded in the cash flow hedge reserve and will be released to the income statement over the period of the related bond loan.

Also in August 2017, KOS Spa signed two Interest Rate Swap contracts with leading banks in order to cover the risk regarding drawdowns totalling €26 million made on the ING Natixis line of credit in 2017.
These two IRS contracts have the following characteristics: *start date* 31 December 2017, *termination date* 6 April 2022. IRS raw of 0.37% and 0,385%, respectively, against the Euribor 6 month rate. Both instruments are linked to the underlying loans and proved to be hedges at 31 December 2017. Consequently, their FV was recorded in the cash flow hedge reserve.

More detailed information is provided in the Notes to the consolidated financial statements. We provide below a summary of the main characteristics of the hedging contracts relating to outstanding loans and finance lease liabilities at 31 December 2017.

Company	Enter date	Time	*Pay*	*Cap*	*Floor*	*Receive/Index*	Notional		*Fair Value*	
							31/12/17	31/12/16	31/12/17	31/12/16
Kos Care Srl	2013	Quarterly	1.740%			Euribor 3M	6,805	7,132	(292)	(371)
Kos Care Srl	2015	Quarterly	0.150%			Euribor 3M	3,214	3,857	(15)	(22)
Kos Care Srl	2014	Quarterly	0.298%			Euribor 3M	4,750	5,750	(35)	(52)
Kos Care Srl	2015	Quarterly	0.220%			Euribor 3M	3,573	3,684	(21)	(33)
Kos Care Srl	2015	Quarterly	0.206%			Euribor 3M	4,850	4,999	(27)	(42)
Kos Care Srl	2015	Quarterly	0.390%			Euribor 3M	4,579	5,211	(43)	(65)
Kos SpA	2017	Half-year	0.385%			Euribor 6M	13,000	-	(78)	-
Kos SpA	2017	Half-year	0.370%			Euribor 6M	13,000	-	(72)	-
Total Interest Rate Swap							**53,771**	**30,633**	**(583)**	**(585)**
Medipass Srl	2010	Quarterly		4.00%	1.00%	Euribor 3M	-	1,000	-	(3)
Total Collar							**-**	**1,000**	**-**	**(3)**
Medipass Srl	2011	Quarterly		3.25%		Euribor 3M	111	586	-	-
Kos Care Srl	2010	Monthly		4.00%		Monthly avarage Euribor 1M	-	4,141	-	-
Kos Care Srl	2010	Monthly		4.00%		Monthly avarage Euribor 1M	-	1,382	-	-
Kos Care Srl	2014 FWD Start 2017	Monthly		1.50%		Monthly avarage Euribor 1M	3,748	-	6	11
Kos Care Srl	2014 FWD Start 2016	Monthly		1.50%		Monthly avarage Euribor 1M	3,181	3,514	2	5
Kos Care Srl	2014 FWD Start 2016	Monthly		1.50%		Euribor 3 M	3,948	4,261	3	6
Total Interest Rate Cap							**10,988**	**13,884**	**11**	**22**
Derivative instruments effective							**64,759**	**45,517**	**(572)**	**(566)**
Sanatrix Gestioni Srl	Cap - 2013	Monthly		2.50%		Euribor 6M	2,542	2,988	-	4
HSS Real Estate Srl	IRS - 2013	Quarterly	2.04%			Euribor 3M	3,150	4,050	(133)	(220)
Polo Geriatrico di Riabilitazione SpA	2010	Quarterly	2.680%			Euribor 3M	-	12,639	-	(285)
Ecomedica Srl	2013	Monthly	0.900%			Euribor 1M	83	-	-	-
Ecomedica Srl	2015	Monthly	0.200%			Euribor 1M	181	-	(1)	-
Ecomedica Srl	2016	Monthly	-0.180%			Euribor 1M	112	-	-	-
Derivative instruments not effective							**6,068**	**19,677**	**(134)**	**(501)**
Total							**70,827**	**65,194**	**(706)**	**(1,067)**

These are Interest Rate Swaps (IRS) or collars or Interest Rate Caps that include the payment of a fixed rate interest against collection of a floating rate.

Some of the hedging derivative instruments have met in full the conditions of IAS 39 in relation to the application of hedge accounting (formal designation of the hedging relationship; documented hedging relationship, measurable and highly effective). Therefore, they have been treated under the cash flow hedge method which specifically envisages that the intrinsic value of gains or losses be allocated to reserves at the date of signature of the contract. Any subsequent change in fair value due to interest rate fluctuation– still within the limits of the effective portion hedged - will also be recorded under equity.

Derivative contracts that cannot be considered effective hedges in accordance with IFRS, were discontinued, with the gradual release to profit or loss of the reserve accumulated up to the date of effectiveness and changes in fair value after the date the hedge was no longer effective taken to profit or loss.

Business outlook and description of main risks and uncertainties

The growing need to limit public spending, the general trend towards reducing the length of hospital stays for acute care patients, the ageing population and the increase in chronic care are all factors that will lead to higher demand for rehabilitation and nursing home services in the near future.

The presence of entry barriers must also be taken into account: they regard the stringent regulations applicable in the sector with regulatory requirements to be satisfied and significant investment needed to develop new facilities.

Long-term care for the elderly and rehabilitation activities must comply with legal requirements both in terms of the facilities made available and their organisation. This includes government regulations that are sometimes applied on a slightly different basis from one region to another. Compliance with these requisites is essential if a facility is to obtain Italian NHS accreditation leading to reimbursement of a portion of the cost of providing the service.

The current national and regional economic situation, with resources increasingly scarce, requires those on the supply side to adapt. This involves revising their organisational and operating structure and developing new initiatives to satisfy new and emerging needs. A series of measures will be necessary and can be summarised as follows:

- Orientation towards services offering ever more complex care and assistance, especially in the rehabilitation sector;
- Greater integration and complementarity with the Public sector, across the country;
- More efficient operations with focused action to improve the organisational model and procedures, bringing "manageable" costs into line with those incurred by the most efficient healthcare facilities (medical gas costs, pharmaceuticals, waste disposal, utilities, etc.).
- Continueation of action on key operating factors in order to rationalise and streamline the system;
- Prioritise services for private patients, adapting them to satisfy demand;
- Arrange agreements with professional associations and insurance companies.

In 2018, activities aimed at integrating and enhancing the operating subsidiaries will again continue while new opportunities will be sought out in order to consolidate the Group position in the healthcare sector in Italy and, if appropriate, abroad.

With that in mind, the merger of the two main group companies - Residenze Anni Azzurri S.r.l. and Istituto di Riabilitazione S. Stefano S.r.l. – was completed in 2017.

Efforts to improve marketing policy will also continue so as to raise the Group profile and give it a uniform image in the eyes of the public and government institutions.

In the Cancer Care and diagnostic services sector, the increasing technological complexity of diagnostic imaging, the need to renew the equipment available at public healthcare facilities and financial issues regarding the direct management of investments mean it is reasonable to expect further market growth, both in Italy and abroad.

With regard to the business outlook for Ospedale di Suzzara, the year 2018 will see the continuation of meetings with Azienda Ospedialiera Carlo Poma to discuss the request to extend the concession.

Risk management

The main risks and uncertainties that affect the company and the Group are outlined below in accordance with Art. 2428 of the Italian Civil Code.

Risks regarding the general state of the economy

The Group's financial position and results are affected by outlook for gross domestic product and tax revenues, the credit crunch and volatility of the major economic indicators. The downturn in Italy's major manufacturing and service sectors and the need to direct public spending towards measures that will sustain employment and the flow of credit – including increased funds for welfare and greater resources for the credit sector – together with the possibility that tax revenues might decrease could reduce the resources that the State is able to provide to the regions and, in general, to the healthcare budget, one of the main areas of public expenditure and one of the areas where the most immediate action can be taken in relation to public finances. Again in 2017, a number of legislative measures were introduced with the aim of reducing public expenditure and, in particular, healthcare expenditure. These measures have to be adopted and implemented on a regional level. We note that these measures represent a potential risk to future profitability even though the Group has constantly analysed and monitored them and the results of this process are reflected, as necessary, in the financial statements in the estimates made when evaluating the recoverability of assets and in business plans which show forecast future financial information.

Risks regarding the reliance of the KOS Group on the public sector

The results of the KOS Group rely significantly on its commercial relations with public sector bodies like Municipal and Regional Authorities. In fact, around 63% of KOS Group consolidated revenue in the year ended 31 December 2017 were generated by such commercial relations.

Any reduction in the spending power of the Italian government and other public sector bodies and any inability on the part of the KOS Group to find valid alternatives to its current relations with public sector bodies could, therefore, prejudice the business of the KOS Group as well as its financial position and results.

Risks regarding the operation of equipment and healthcare facilities

The healthcare facilities in which KOS subsidiaries operate are exposed to operational risks such as equipment breakdown, failure to comply with applicable laws and regulations, revocation of permits and licences, lack of personnel or industrial action, circumstances involving higher energy or fuel costs, natural disasters, acts of sabotage, acts of terrorism or significant problems with the supply of raw materials.
Any discontinuance of operations at healthcare facilities due to events described above or any other events could have an adverse effect on the Group's operations and its financial position and results.
The risks regarding the operation of healthcare equipment and facilities are adequately insured.

Risks regarding indebtedness of KOS Group companies

The repayment of financial debt will depend on the ability of the Group companies to generate sufficient cash flow. If the Group companies are unable to repay debt or fail to respect covenants, they would be required to make early or immediate repayment of these loans and this could have an adverse effect on the business and on the Group's its financial position and results.

Risks regarding litigation and disputes

Some Group companies are involved in judicial, civil and administrative proceedings that could require them to pay damages. The Group companies have evaluated the contingent liabilities that could arise from these pending legal disputes and have made provision for the cost of losing the said proceedings. The amount of the provisions allocated was determined based on the prudence concept.

We cannot exclude the possibility that the Group companies may have to face liabilities which are not covered by the provisions and are subject to the outcome of legal proceedings. Such liabilities could have an adverse effect on the Group business and on its financial position and results.

Risks regarding the applicable legislative and regulatory framework

Some Group companies carry out their activities in sectors regulated by European, Italian National and Regional legislation and regulations.
In particular, Group companies are subject to Italian National laws on: (i) access to performance of the activities in which the Group operates; (ii) environmental protection (storage of special waste, use and management of hazardous substances); (iii) construction; (iv) fire prevention; (v) safety in the workplace.
It is impossible to exclude the possibility that legislative measures issued, periodically, by the European Union, the Italian government and the regions in which the Group companies operate, may have a significant impact on the Group's financial position and results.

Risks regarding seconded personnel

Ospedale di Suzzara S.p.A. uses personnel seconded from Azienda Ospedaliera Carlo Poma, that meet the relevant legal requirements and as present at Suzzara Hospital at 31/10/2004, to carry out its business under the Concession agreement. Such personnel continue to be employed by Azienda Ospedaliera Carlo Poma throughout the concession agreement period and is treated, legally and financially, in accordance with the national collective labour agreement for Italian National Healthcare Service employees. In February 2011, an agreement was reached with Azienda Ospedaliera Carlo Poma to revise some of the rules applying to regional experimental management arrangements in order to bring greater clarity and stability to the relationship between the parties involved and avoid the recharge of costs for seconded personnel that are not the result of business decisions by the entity providing services under the concession agreement. The said agreement regulated how personnel costs to be recharged by Azienda Ospedaliera Carlo Poma shall be determined and is valid for

five years between 01/01/2009 and 31/12/2013; for years prior to 2009, it offered greater certainty in relation to the basis of calculation of contractual amounts. It must also be noted that the agreement also included certain contractual safeguards for Azienda Ospedaliera Carlo Poma.
With effect from 1 January 2013, Azienda Ospedialiera Carlo Poma terminated the seconded personnel agreement signed in 2011 citing the financial and profit related issues raised by the Company. When the 2014, 2015 and 2016 financial statements were prepared, the cost of seconded personnel was measured at effective cost as required by the original agreement. For the time being, the Company has suspended payment of the disputed invoices relating to the period before 31.12.2013 until the legal dispute is settled.
At the end of 2014, Azienda Ospedaliera Carlo Poma started recalling seconded personnel and this continued in 2017.

Other risks

Other potential risks could regard the Group companies' exposure to accidental events that might occur in the course of its activities, resulting in claims for damages for civil liability (e.g. medical errors, falls/injuries for patients, etc.).
The Group determines its insurance policy on a central level to ensure it is compatible with the risk profile of the individual companies and the Group as a whole. This has led to the arrangement of insurance policies with customised levels of cover and the establishment of the Claims Assessment Committee to monitor them. It should be noted that the maximum pay-out of around € 5 million and €10 million per claim under the third party liability and employee liability policies, respectively, has always proven easily sufficient to cover claims for compensation received while the insurance market has always been ready and willing to cover the Group's risks.
Claims for damages made by patients are handled together with the insurance companies that cover the Group's third party liability. Based on the reserves created by the insurers, the Group determines its exposure and specific provisions are made in the financial statements. On 1 April 2017, the Gelli – Bianco Law (Law 24/2017) came into force. It reiterates citizens' rights to healthcare while also protecting the professional and personal dignity of healthcare workers. The effects of the new law cannot be quantified yet but the Group companies have taken steps to comply with its requirements and provision for the related risks has been made.

Finally, there could be further risks relating to rented/leased properties. It is possible that rental/lease agreements may not be renewed upon expiry or that renewal may be on less favourable terms, affecting the statement of financial position, income statement and financial position of the Group.

Management of financial risks

The KOS Group is exposed to various financial risks and, specifically, the credit risk, the liquidity risk and the market risk (exchange rate risk, interest rate risk and other price risks).

Credit risk

The credit risk is the risk of suffering a financial loss due to failure by third parties to fulfil a payment obligation.
The Group has several aggregations of receivables depending on the nature of the activities carried out by each operating company and on their client base. The risk is mitigated by the fact that credit exposure is spread across a large number of debtors. For instance, receivables are less concentrated in the RSA/nursing home sector where more than half of revenues come from the persons resident in the nursing homes and the reported receivables from public sector bodies (mainly ASLs and municipalities) are due from many different entities. In contrast, receivables are more highly concentrated in the hospital management/services segment as revenues are generated by a smaller number of clients.
Credit risk monitoring activities commence by grouping receivables by type of debtor, age, history of previous financial difficulties or disputes and whether there are any ongoing legal or insolvency proceedings.
The Group normally allocates a provision for doubtful debts that reflects an estimate of likely bad debts based on a review and assessment of each individual balance.

Liquidity risk

The liquidity risk, or financing risk, is the risk that the Group may encounter difficulty in raising, on acceptable terms and conditions, the funds needed to honour commitments under financial instruments.

The liquidity risk to which the Group is exposed may arise in relation to its obtaining loans to fund operating activities in a timely manner or as a result of its failure to respect covenants under existing loan agreements; in such cases, the lending banks could demand that the Group make early repayment of the loans. Cash flow, the borrowing requirements and the

liquidity of Group companies are centrally monitored or managed by the Finance Department with the aim of ensuring that financial resources are effectively and efficiently managed.
The three main factors that are essential to determining the Group liquidity situation are:

- cash generated or absorbed by operating and investing activities;
- maturity and renewal terms of debt or liquidity of financial assets, as well as market conditions;
- investment and development activities of parent company KOS S.p.A.

The Finance Department has adopted a series of policies and procedures aimed at optimising management of financial resources, thus reducing the liquidity risk:

- constant monitoring of forecast cash requirements so that any action necessary can be taken in good time (arrange additional lines of credit, share capital increases,..).
- agreement of adequate lines of credit;
- optimisation of liquidity, using cash pooling where feasible;
- correct composition of net financial indebtedness given capex made;
- regular, centralised control of collection and payment flows;
- maintenance of an adequate level of available liquidity;
- diversification of means and sources for use in raising financial resources;
- regular monitoring of future liquidity in relation to the business planning process;
- regular control of compliance with covenants imposed by loans arranged.

Management believes that existing funds and lines of credit, in addition to cash generated by operating activities and borrowing, will enable the Group to meet its requirements in terms of investments, working capital management and repayment of loans at maturity.

Exchange rate risk

In 2011, the Group began – albeit to a limited extent – to operate on international markets and is thus exposed to the exchange rate risk.
As well as seeking natural hedging between receivables and payables, the Group has entered into specific hedging contracts in relation to foreign currency loans and commercial transactions in foreign currency.

Interest rate risk

The interest rate risks regards the risk that the value of a financial instrument and/or the related cash flows might change due to fluctuation of market interest rates.

Exposure to the interest rate risk results from the need to finance operating activities, both on a day to day basis and in relation to the acquisition of businesses while also employing available liquid resources. Interest rate fluctuations may have a negative or positive impact on the income of the Group and might indirectly affect the costs and performance of borrowing and investment operations.
The Group regularly assesses its exposure to the interest rate risk and manages the risk using financial derivative instruments in accordance with the established risk management policies. Under these policies, financial derivative instruments are solely used to manage exposure to interest rate fluctuations correlated with future cash flows; speculative derivate instruments are neither used nor considered.
The only instruments used for this purpose are interest rate swaps (IRS), caps and collars.
The Group uses derivative financial instruments for cash flow hedge purposes with the aim of pre-determining interest payable on loans in order to obtain an ideal pre-defined floating and fixed rate mix for its borrowings.
The other parties to these contracts are leading financial institutions.
Derivative instruments are stated at fair value.

Other price risks

Other price risks include the risk that the value of a security might vary due to fluctuation in market prices because of factors specific to the individual security or its issuer or because of factors affecting all securities traded on the market.
The Group does not have any significant exposure in securities traded on active markets so its exposure to this type of risk is negligible.

Human Resources

The Group mainly relies on its own employees and only to a limited extent on freelance personnel who are mainly assigned non-strategic roles. The Group believes that a direct employment relationship guarantees greater stability and ongoing monitoring of the quality of the services provided and the resources deployed. However, it should be noted that some psychiatric rehabilitation facilities are wholly operated by local labour cooperatives. In these cases, the local nature of these cooperatives leads to a better overall cost/benefit relationship for the Group.

As at 31 December 2017, the Group had 6,421 employees against 5,560 employees at 31 December 2016. This increase is mainly due to changes in the scope of consolidation and to the opening of new facilities, especially in the Nursing Homes segment.

The Group companies apply the following Italian National collective labour contracts (CCNL):

KOS S.p.A:
- CCNL for executives of industrial companies.
- CCNL for workers in the private engineering and plant installation industry.

Medipass S.r.l/Elsida S.r.l:
- CCNL for executives of companies operating in the retail and services sectors (Confcommercio).
- CCNL for employees of companies operating in the retail and services sectors.
- CCNL for non-medical employees of healthcare facilities associated with AIOP.

Ospedale di Suzzara S.p.A.:
- CCNL for medical staff employed in nursing homes, I.R.C.C.S., hospitals and rehabilitation centres.
- CCNL for non-medical employees of healthcare facilities related to AIOP.

KOS CARE S.r.l.:
- CCNL for executives of companies operating in the retail and services sectors.
- CCNL for employees of facilities operating in the socio-medical-healthcare-education sector.
- CCNL for non-medical employees of healthcare facilities related to AIOP.
- CCNL for employees of Nursing Homes and ARIS rehabilitation centres.

Abitare il Tempo S.r.l., Sanatrix Gestioni S.r.l, Jesilab Srl and Fidia Srl:
- CCNL for non-medical employees of healthcare facilities related to AIOP.
- CCNL for employees of Nursing Homes and ARIS rehabilitation centres.

Kos Servizi S.c. a r.l.:
- CCNL for employees of companies operating in the retail and services sectors;
- CCNL for executives of companies operating in the retail and services sectors.
- CCNL for employees of Nursing Homes and ARIS rehabilitation centres.

Ex Redancia:
- CCNL for employees of Nursing Homes and ARIS rehabilitation centres.

Legislative Decree 231, privacy and data security

The Company has adopted an Organisation and Management Model pursuant to Legislative Decree 231/2001 and appointed Supervisory Boards with the role of supervising the operation of the Model, compliance with it and ensuring that it is updated.

Over the years, in response to legislative measures and organisational changes, several updates to the Organisation Model have been made, arriving at the current version which was approved by the Board of Directors at its meeting of 19 July 2013. In 2014 and 2015, further legislative measures were introduced as follows: Legislative Decree no 39 of 4 March 2014 against the abuse and sexual exploitation of minors and child pornography; the adoption of a European Directive on the prevention of wounds due to cuts and stitches in hospitals and healthcare facilities; the offence of self-laundering and rules regarding environmental offences. In response to these measures, the Supervisory Board has monitored the regulatory developments regarding the impact of self-money laundering offences, in order to update effectively the Organisation Model, as scheduled for 2016.

The KOS S.p.A. Supervisory Board has three members, one of whom is appointed as Chairman in accordance with the Board's Internal Rules. It works in close cooperation with the Supervisory Boards of the operating companies based on annual programmes of activities. The constant interrelationship between the KOS S.p.A. Supervisory Board and the Supervisory Boards of the operating companies improves overall supervision at Group level.
In 2016, the Group continued with its efforts to ensure compliance with Italian Legislative Decree 231/01. These efforts accompanied both the broader control system based on rules of Corporate Governance i.e. the range of internal rules and formal procedures adopted both within the Group and when dealing with third parties and the existing Internal Control System.
The internal control system has been further improved in order to check that decision-making is irreprehensible, that processes take place properly and that business resources are properly used. These checks have regarded both organisational and operational issues and healthcare matters. All audit activities take place with the full involvement of business functions that operate in sensitive areas, cooperating with them to revise operating procedures to render them ever more compliant with the legislative requirements, guarantee transparency and prompt reporting while improving overall corporate governance.
During the year, the Supervisory Board also reports regularly to the Board of Statutory Auditors of the company, taking part in all meetings of that body and updating it with details of the work done and the results obtained.

In the course of their activities, the KOS Group companies gather a significant volume of personal data and confidential information that they undertake to process in accordance with personal data protection legislation. This wealth of information must be effectively protected and safeguarded in order to avoid its possible alteration or misuse. Furthermore, certain data relates to the personal affairs of residents/patients and they are entitled to receive guarantees about how it is processed and utilised.
In recent years, the Group analysed and reviewed all of its documentation under Legislative Decree 196/03 in order to establish a common structure for the Personal Data Security Policy Documents (*Documenti Programmatici della sicurezza (DPS)*) and accompanying documents for all KOS Group companies. The Group has also issued a procedure for use when appointing Data Controllers/Persons in charge of processing/system administrators and a "Procedure to control compliance with Privacy requirements".
In light of the delicate nature and importance of the data processed, notwithstanding recent simplification of regulatory requirements, all of the Group companies have decided to continue to update the DPS in future in order to guarantee proper safeguards and protection for personal data
.

Reconciliation between parent's separate financial statements and the Group's consolidated financial statements

(eur/000)	2017 Net equity	2017 Net Income	2016 Net equity	2016 Net Income
EQUITY AND PARENT COMPANY INCOME	**127,178**	**(4,625)**	**144,629**	**(3,716)**
Shareholders' equity and net income of consolidated Companies	375,679	36,933	315,210	29,176
Reversal of writedown of consolidated Companies	7,658		7,658	
Cancellation of book value of consolidated equity investments and goodwill	(214,367)		(188,732)	
Fair value of derivatives	(559)		(452)	
Other	(2,036)	(1,616)	(1,949)	(877)
TOTAL EQUITY	**293,553**	**30,692**	**276,364**	**24,583**
of which attributable to non-controlling interests	(6,547)	1,643	(5,852)	1,212
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT	**287,006**	**29,049**	**270,512**	**23,371**

Significant events after the reporting date

In February 2018, the Group acquired Prora S.r.l., parent company of Ideas S.r.l which operates a residential care facility for elderly people unable to take care of themselves. It has Marche Region authorisation and accreditation and has 90 residential beds and 20 day centre beds.

On 22 February 2018, a contract was signed with the Cassa Depositi e Prestiti for a line of credit of up to 25 € million. The finance, together with that arranged with the EIB in 2017, is designed to finance capex in the medical equipment segment, especially on medical diagnostic imaging, nuclear medicine and cancer care; this capex will be incurred through subsidiary Medipass S.r.l.

Related party transactions

Related party transactions, including intercompany transactions, cannot be classed as either atypical or unusual as they form part of the ordinary activities of the Group companies. These transactions take place at market conditions, considering the nature of the goods and services supplied. A detailed analysis of transactions with related parties is provided in the Notes to the Consolidated Financial Statements.

Milan, 23 February 2018

FOR THE BOARD OF DIRECTORS

The Chairman

Carlo Michelini

Income statement

(eur/000)	Notes	2017	2016
REVENUE	4	490,559	461,074
PURCHASE OF GOODS	5	(35,454)	(31,536)
SERVICES	6	(173,197)	(168,029)
PERSONNEL EXPENSE	7	(181,999)	(167,410)
OTHER OPERATING INCOME	8	6,449	6,703
OTHER OPERATING COSTS	9	(18,480)	(18,205)
ADJUSTMENTS TO EQUITY-ACCOUNTED INVESTEES	18	(80)	(167)
GROSS OPERATING PROFIT		**87,798**	**82,430**
AMORTIZATION, DEPRECIATION, IMPAIRMENT LOSSES AND PROVISIONS	10	(34,032)	(33,780)
OPERATING PROFIT		**53,766**	**48,650**
FINANCIAL INCOME	11	1,183	2,595
FINANCIAL EXPENSES	12	(12,667)	(13,011)
DIVIDENDS	11	33	74
ADJUSTMENTS TO FINANCIAL ASSETS	13	(231)	(100)
PRE-TAX PROFIT		**42,084**	**38,208**
INCOME TAXES	14	(11,392)	(13,625)
PROFIT FOR THE YEAR INCLUDING NON-CONTROLLING INTERESTS		**30,692**	**24,583**
PROFIT FOR THE YEAR ATTR. TO NON-CONTROLLING INTERESTS		1,643	1,212
PROFIT FOR THE YEAR ATTR. TO OWNERS OF THE PARENT		**29,049**	**23,371**
BASIC EARNINGS PER SHARE (eur)	39	0.328	0.267
DILUTED EARNINGS PER SHARE (eur)	39	0.328	0.264

Statement of comprehensive income

(eur/000)	2017	2016
PROFIT FOR THE YEAR	**30,692**	**24,583**
Items that will never be reclassified to profit or loss:		
Net actuarial gains	(133)	(1,021)
Income taxes on net actuarial gains	32	281
Translation difference	(202)	(161)
Items that will be reclassified to profit or loss:		
Net gains on cash flow hedges	49	142
Income taxes on net gains on cash flow hedges	(12)	36
TOTAL COMPREHENSIVE INCOME	**30,426**	**23,860**
Owners of the parent	28,794	22,717
Non-controlling interests	1,632	1,143

Statement of financial position

(eur/000)	Notes	31/12/2017	31/12/2016
NON CURRENT ASSETS		**630,897**	**580,299**
INTANGIBLE ASSETS	15	276,680	233,204
PROPERTY, PLANT AND EQUIPMENT	16	323,113	322,511
INVESTMENT PROPERTY	17	4,691	4,818
EQUITY-ACCOUNTED INVESTEES	18	856	936
OTHER EQUITY INVESTMENTS	18	1,813	1,797
OTHER ASSETS	19	3,126	531
DEFERRED TAXE ASSETS	20	20,618	16,502
CURRENT ASSETS		**161,631**	**152,314**
INVENTORIES	21	3,358	2,970
RECEIVABLES FROM PARENT COMPANY	22	1,392	1,522
TRADE RECEIVABLES	23	96,724	87,518
OTHER ASSETS	24	9,936	12,359
FINANCIAL ASSETS	25	17,049	9,814
SECURITIES	26	352	-
CASH AND CASH EQUIVALENTS	26	32,820	38,131
ASSETS HELD FOR SALE	35	-	-
TOTAL ASSETS		**792,528**	**732,613**
LIABILITIES AND EQUITY			
EQUITY	27	**293,553**	**276,363**
SHARE CAPITAL		8,848	8,848
RESERVES		119,477	136,017
RETAINED EARNINGS		158,681	125,646
EQUITY		**287,006**	**270,511**
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		6,547	5,852
NON-CURRENT LIABILITIES		**308,857**	**250,700**
BOND LOANS	28	98,308	-
OTHER LOANS AND BORROWINGS	28	164,799	209,288
OTHER LIABILITIES	34	98	94
DEFERRED TAX LIABILITIES	29	14,406	13,719
PERSONNEL PROVISIONS	30	24,774	22,511
PROVISIONS FOR RISKS AND CHARGES	31	6,472	5,088
CURRENT LIABILITIES		**190,118**	**205,550**
BANK OVERDRAFTS	28	3,330	1,727
BOND LOANS	28	675	-
OTHER LOANS AND BORROWINGS	28	20,254	50,545
PAYABLES TO PARENT COMPANY	32	5,869	8,663
TRADE PAYABLES	33	68,847	67,166
OTHER LIABILITIES	34	52,306	44,060
PROVISIONS FOR RISKS AND CHARGES	31	38,837	33,389
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	35	-	-
TOTAL LIABILITIES AND EQUITY		**792,528**	**732,613**

Statement of cash flows

(eur/000)	2017	2016
OPERATING ACTIVITIES		
PROFIT FOR THE YEAR	30,692	24,583
ADJUSTMENTS:		
AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES	29,629	29,079
ACCRUAL TO PROVISIONS FOR PERSONNEL, NET OF UTILISATIONS AND STOCK OPTIONS	2,547	1,936
ACCRUAL TO PROVISIONS FOR RISKS AND CHARGES, NET OF UTILISATIONS	6,832	6,375
CHANGE IN NET WORKING CAPITAL, NET OF ACQUISITIONS	(4,764)	(3,507)
CHANGES IN OTHER CURRENT ASSETS/LIABILITIES, NET OF ACQUISITIONS	3,469	3,073
OTHER CHANGES IN NON-CURRENT ASSETS/LIABILITIES, NET OF ACQUISITIONS	(6,020)	(4,482)
CASH FLOW FROM OPERATING ACTIVITIES	**62,385**	**57,057**
of which:		
interest paid (collected)	8,183	8,166
income taxes paid (collected)	16,355	11,875
INVESTING ACTIVITIES		
(PURCHASE)/SALE OF NON-CURRENT ASSETS	(24,126)	(29,220)
PURCHASE OF ASSETS, NET OF BANK LOANS AND BORROWINGS	(42,516)	(8,792)
CASH FLOW USED IN INVESTING ACTIVITIES	**(66,642)**	**(38,012)**
FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL INCREASES OF NC INTERESTS	77	10,548
OTHER CHANGES IN EQUITY	(360)	(1,967)
CHANGES IN OTHER FINANCIAL ASSETS	(7,235)	4,605
DRAWDOWN/(REPAYMENT) OF OTHER LOANS AND BORROWINGS	18,448	11,545
DIVIDENDS PAID AND RESERVES DISTRIBUTED	(13,587)	(30,360)
CASH FLOW USED IN FINANCING ACTIVITIES	**(2,657)**	**(5,629)**
INCREASE (DECREASE) IN NET CASH AND CASH EQUIVALENTS	**(6,914)**	**13,416**
OPENING NET CASH AND CASH EQUIVALENTS	**36,404**	**22,988**
CLOSING NET CASH AND CASH EQUIVALENTS	**29,490**	**36,404**
CASH AND CASH EQUIVALENTS	**32,820**	**38,131**
BANK OVERDRAFTS	**(3,330)**	**(1,727)**
CLOSING NET CASH AND CASH EQUIVALENTS	**29,490**	**36,404**

Statement of changes in equity

	SHARE CAPITAL	LEGAL RESERVE	SHARE ISSUE PREMIUM	STOCK OPTION RESERVE	CASH FLOW HEDGE RESERVE	POST-EMP. BENEFIT	RETAINED EARNINGS(LOSSES)	TRANSLATION RESERVE	PROFIT FOR THE YEAR	TOTAL	PROFIT FOR THE YEAR ATTRIBUTABLE TO NC INTERESTS	NON-CONTROLLING INTERESTS	TOTAL
BALANCE AT 31 DECEMBER 2015	**8,565**	**1,713**	**159,599**	**1,748**	**(338)**	**(1,302)**	**75,553**	**480**	**19,775**	**265,793**	**1,595**	**5,954**	**273,342**
Share capital increase	283		10,178							10,461		87	10,548
Profit for the year									23,371	23,371	1,212		24,583
Other comprehensive income													
Changes in cash flow hedge reserve					(114)		280			166		12	178
Changes in post-employment benefit valuation reserve						(725)				(725)		(15)	(740)
Translation differences								(95)		(95)		(66)	(161)
Total other comprehensive income	**0**	**0**	**0**	**0**	**(114)**	**(725)**	**280**	**(95)**	**23,371**	**22,717**	**1,212**	**(69)**	**23,860**
Increase in stock option reserve				779						779			779
Acquisition of non-controlling interests							648			648		(2,454)	(1,806)
Allocation of prior year profit		57	(4,611)				24,329		(19,775)	0	(1,595)	1,595	0
Dividends and reserves distribuited to Shareholders			(29,887)							(29,887)		(473)	(30,360)
Excercise of stock options				(1,080)			1,080			0			0
BALANCE AT 31 DECEMBER 2016	**8,848**	**1,770**	**135,279**	**1,447**	**(452)**	**(2,027)**	**101,890**	**385**	**23,371**	**270,511**	**1,212**	**4,640**	**276,363**

	SHARE CAPITAL	LEGAL RESERVE	SHARE ISSUE PREMIUM	STOCK OPTION RESERVE	CASH FLOW HEDGE RESERVE	POST-EMP. BENEFIT	RETAINED EARNINGS(LOSSES)	TRANSLATION RESERVE	PROFIT FOR THE YEAR	TOTAL	PROFIT FOR THE YEAR ATTRIBUTABLE TO NC INTERESTS	NON-CONTROLLING INTERESTS	TOTAL
BALANCE AT 31 DECEMBER 2016	**8,848**	**1,770**	**135,279**	**1,447**	**(452)**	**(2,027)**	**101,890**	**385**	**23,371**	**270,511**	**1,212**	**4,640**	**276,363**
Share capital increase										0		77	77
Profit for the year									29,049	29,049	1,643		30,692
Other comprehensive income													
Changes in cash flow hedge reserve					(107)		144			37			37
Changes in post-employment benefit valuation reserve						(101)				(101)			(101)
Translation differences								(191)		(191)		(11)	(202)
Total other comprehensive income	**0**	**0**	**0**	**0**	**(107)**	**(101)**	**144**	**(191)**	**29,049**	**28,794**	**1,643**	**(11)**	**30,426**
Increase in stock option reserve				385						385			385
Acquisition of non-controlling interests (MHE)							44			44		(73)	(29)
Acquisition of non-controlling interests (PGR)							331			331		(382)	(51)
Acquisition of non-controlling interests (CMH)							(59)			(59)		(19)	(78)
Acquisition of equity investments with non-controlling interests (ECO)										0		47	47
Allocation of prior year profit							23,371		(23,371)	0	(1,212)	1,212	0
Dividends and reserves distribuited to Shareholders			(13,000)							(13,000)		(587)	(13,587)
Utilisation of share premium			(3,717)				3,717			0			0
BALANCE AT 31 DECEMBER 2017	**8,848**	**1,770**	**118,562**	**1,832**	**(559)**	**(2,128)**	**129,438**	**194**	**29,049**	**287,006**	**1,643**	**4,904**	**293,553**

KOS Group Annual Report

1 Profile of the KOS Group

The KOS Group (formerly HSS Group) has been operating in the health care and long term care sector in Italy since 2003. Over the last few years, it has grown as follows:

- acquisitions of stand-alone business units or private chains already operating;
- participation in public tenders for restructuring and/or integrated management licensing;
- participation in tenders for allocation of investments and/or sector management (advanced technology, radiology, operating rooms, etc.) in public health care or social and medical assistance units;
- green field projects with or without local partners.

The Group invests in the management of residential care facilities (nursing homes, psychiatric and rehabilitation residences and residences for the disabled), in the management of advanced diagnostic and therapeutic technology in public and private hospitals (MRI, PET, Accelerators, proton therapy centres) and in public licenses for hospital management.

Specifically, the Group operates in the following business areas:

Long Term Care: the Group provides residential healthcare and assistance to the elderly, mainly under the "Anni Azzurri" brand. It also operates functional and psychiatric rehabilitation centres under the brands "Santo Stefano" (functional rehabilitation) and "Neomasia" (psychiatric rehabilitation) brands. The rehabilitation business area also includes the activities of the Sanatrix Group and out-patient clinics;

Hospital management/services: the Group provides advanced services for complex medical technology management (diagnostic imaging, nuclear medicine and radiotherapy) on an outsourced basis, mainly under the "Medipass" brand. In this business area, the Group also manages Ospedale F.lli Montecchi di Suzzara (MN) under a concession agreement).

The Group operates mainly in Italy in eight regions of North and Central Italy (Liguria, Piedmont, Lombardy, Veneto, Trentino, Emilia Romagna, Marche and Umbria).

As at 31 December 2017, KOS Group was managing some 81 healthcare facilities in North and Central Italy with a total of 7,764 beds plus around 800 beds under construction. It operates in two *Strategic Business Areas (SBA)*:

- Long term care: management of nursing homes for the elderly with some 49 nursing homes for a total of 5,409 beds and 31 rehabilitation facilities for a total of 2,232 beds in operation plus 15 outpatient clinics;
- Hospital management/services: management of a hospital with a total of 123 beds and operation of cancer treatment and diagnostic services in private and public sector hospitals/clinics, for a total of 35 facilities;

The SBAs are, in turn, divided into three operating segments: Long term care, Acute care and Cancer Care and Diagnostics.

KOS S.p.A. has its registered office in via Ciovassino,1 Milan and its operating head office in via Durini, 9, Milan. Its ordinary shares are held by the following:

- 59.53% by C.I.R S.p.A., a company listed on the Mercato Telematico Italiano (Italian electronic stock exchange) managed by Borsa Italiana;
- 40.47% by F2i Healthcare SpA, a company controlled by the second F2i fund.

Scope of consolidation and acquisitions

The consolidated financial statements include the figures for parent company KOS S.p.A. and the companies directly and indirectly controlled by it at 31 December 2017, as adjusted, where necessary, to bring them into line with IFRS as adopted by the parent company to prepare the Consolidated Financial Statements.

The table below shows a list of the companies consolidated on a line by line basis:

	Name	*Main office*	*Share/quota capital (eur)*	Currency	Shareholders	Shareholding	Group interest
Long Term Care	KOS Care S.r.l	Milan	2,550,000	€	Kos S.p.A	100.00%	100.00%
	Polo Geriatrico Riabilitativo SpA	Milan	320,000	€	KOS Care S.r.l	100.00%	100.00%
	Hss Real Estate S.r.l.	Milan	2,064,000	€	Kos S.p.A	100.00%	100.00%
	Jesilab S.r.l	Jesi (AN)	80,000	€	KOS Care S.r.l	100.00%	100.00%
	Abitare il Tempo S.r.l	Loreto (AN)	100,826	€	KOS Care S.r.l	54.00%	54.00%
	Fidia S.r.l	Corridonia (MC)	10,200	€	KOS Care S.r.l	60.00%	60.00%
	Sanatrix S.r.l.	Macerata	843,700	€	KOS Care S.r.l	76.97%	76.97%
	Villa Margherita S.r.l.	Arcugnano (VI)	20,000	€	KOS Care S.r.l	100.00%	100.00%
	Sanatrix Gestioni S.r.l.	Civitanova Marche (MC)	300,000	€	Sanatrix S.r.l.	99.61%	76.67%
Hospital Services	Medipass S.r.l.	Bologna	700,000	€	Kos S.p.A	100.00%	100.00%
	Elsida S.r.l.	San Giovanni in Persiceto (BO)	100,000	€	Medipass S.r.l.	100.00%	100.00%
	Ecomedica S.p.A.	Empoli (FI)	380,000	€	Medipass S.r.l.	98.31%	98.31%
	Medipass Healthcare Ltd	London (GB)	5,997	GBP	Medipass S.r.l.	98.00%	98.00%
	Medipass Healthcare Leeds & Belfast Ltd	London (GB)	1,000	GBP	Medipass Healthcare Ltd	100.00%	98.00%
	Medipass Leeds Ltd	London (GB)	2	GBP	Medipass Healthcare Leeds & Belfast Ltd	100.00%	98.00%
	Medipass Belfast Ltd	London (GB)	2	GBP	Medipass Healthcare Leeds & Belfast Ltd	100.00%	98.00%
	ClearView Healthcare LTD	New Delhi (IND)	4,661,880	INR	Medipass S.r.l.	85.19%	85.19%
	ClearMedi Healthcare Ltd	New Delhi (IND)	10,717,240	INR	Medipass S.r.l.	79.14%	79.14%
					ClearView Healthcare LTD	20.86%	17.77%
	Ospedale di Suzzara S.p.A.	Suzzara (MN)	120,000	€	Kos S.p.A	99.90%	99.90%
Corporate and other common services	KOS Servizi Società Consortile a r.l.	Milan	115,000	€	Kos S.p.A	3.68%	96.85%
					KOS Care S.r.l	83.05%	
					Medipass S.r.l.	2.07%	
					Elsida S.r.l.	0.23%	
					Ospedale di Suzzara S.p.A.	2.15%	
					Abitare il Tempo S.r.l	4.94%	
					Sanatrix Gestioni S.r.l.	3.02%	
					Fidia S.r.l.	0.43%	
					Jesilab S.r.l.	0.43%	

Details of investments in other non-consolidated companies are provided below:

Osimo Salute S.p.A	Osimo (AN)	750,000	€	Abitare il tempo S.r.l	25.50%	14.03%
Fondo Spazio Sanità	Roma	80,756,000	€	KOS Care S.r.l	1.11%	1.11%
Apokos Rehab PVT Ltd*	Andhra Pradesh - India	169,500,000	INR	Kos S.p.A	50.00%	50.00%

In 2017, we highlight following: the acquisition, on 24 July, of 100% of Laboratorio Salus Macerata Srl, generating goodwill of € 761 thousand in relation to an acquisition price of € 820 thousand; the acquisition, effective from 1 April, of the “Barbarano” Nursing Home business at a cost of € 2,970 thousand, resulting in goodwill of € 2,770 thousand; the acquisitions of Psicogest Srl on 3 July and Ecomedica SpA on 26 July (100% and 98.31%, respectively) giving rise to goodwill of € 2,562 thousand and € 18,262 thousand, respectively, on acquisition prices of € 5,728 thousand and € 20,984 thousand; and, finally, the acquisition, on 5 December 2017, of 100% of Villa Margherita S.r.l. which generated goodwill of € 18,890 thousand in relation to an acquisition price of € 18,771 thousand.

As a result of the acquisitions made in 2016 and 2017, the figures at 31 December 2017 are not perfectly comparable with those for prior year.

The companies acquired have been included in the consolidated financial statements effective from the date that the risks and rewards of ownership were transferred to the Group – this generally coincides with the acquisition date. Pursuant to IFRS 3 revised, business combination costs must be allocated to assets, liabilities and intangible assets not recognised in the financial statements of the companies acquired, up to their fair value. Any amount remaining after this allocation must be recognised as goodwill.

Given the complexity of this process, which involves valuing the numerous and diverse assets and liabilities of the companies acquired, IFRS 3 permits the definitive allocation of the acquisition cost to be performed within twelve months of the date of acquisition. The KOS Group has taken advantage of this possibility and, therefore, the consolidated financial statements at 31 December 2017 report the following amounts.

Eur thousand		**31/12/2017**
Non current assets*	G	9,659
Working capital		3,149
Non current net assets/(liabilities)		(4,536)
Financial liabilities	C	(5,792)
Cash and cash equivalents	B	6,810
Non-controlling interests		(47)
Goodwill	H	40,083
Equity reserves		0
Purchase price		**(49,326)**
of which:		
Purchase price allocation liabilities		(5,378)
Price paid net of advances	A	(43,948)
Impact on financial debt	**D= A+B+C**	**(42,930)**
Purchase price net of cash and cash equivalents	**E=A+B**	(42,516)
Non current assets from acquisition	**I=G+H**	**49,742**
(*)The amount includes property, plant and equipment and intangible assets (goodwill excluded)		

The effect of the aforementioned acquisitions on revenue since the date of acquisition amounts to around € 13,604 thousand while the effect on gross operating profit is positive and amounts to € 2,888 thousand.

The above acquisitions involved acquisition related costs totalling € 1,083 thousand.

2 Accounting policies and measurement criteria

The accounting policies applied when preparing the consolidated financial statements are described below. These accounting policies have been applied consistently to all financial years presented herein, unless otherwise specified.

The Consolidated Financial Statements have been prepared on a going concern basis. The Group maintains that there is no uncertainty over its ability to continue to operate as a going concern despite the difficult economic and financial climate.

2.1 Accounting policies

The KOS Group consolidated financial statements as at and for the year ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the related interpretations (SIC / IFRIC), as endorsed by the European Commission following the procedure under Article 6 of EC Regulation n. 1606/2002 of the European Parliament and Council of 19 July 2002 (hereinafter "IFRS").

IFRS 8 "Operating segments" and IAS 33 "Earnings per share" have not been applied by the Company as their application is only obligatory for companies whose shares are listed on regulated markets. The financial information and disclosures contained in these financial statements have been prepared in accordance with IAS 1.

The KOS Group adopted IFRS with effect from 1 January 2008.

In accordance with prior years, assets and liabilities have generally been accounted for based on the historical cost method. Some captions have been recognised at fair value, as required by IFRS and disclosed in the measurement criteria. The consolidated financial statements have been prepared on a going concern basis.

The Consolidated Financial Statements of the KOS Group comprise the Income Statement, the Statement of Financial Position, the Statement of Cash Flows, the of Changes in Equity and the Notes to the Consolidated Financial Statements.

2.2 Basis of presentation and comparability

The Income Statement has been prepared with revenue and costs classified by type. It shows the operating profit and profit before taxation so as to provide a better representation of the performance of ordinary operating activities.
The financial statements have been prepared in thousands of Euro – both the “functional currency” and the “presentation currency” of the Group in terms of IAS 21 – unless otherwise stated.

The “statement of comprehensive income”, prepared in accordance with IFRS and compulsory as from the current year, highlights other comprehensive income recognised directly in equity.

The statement of financial position has been prepared based on a split between "current/non-current" assets and liabilities. Assets/liabilities are classified as current when they meet any of the following criteria:

- they are expected to be realised or settled, sold or utilised during ordinary business activities; or
- they are held mainly for trading purposes; or
- they are expected to be realised or settled within twelve months of the reporting date.

If none of the three conditions are met, the assets/liabilities are classified as non-current.

The Statement of Cash Flows has been prepared using the indirect method.

The Statement of Changes in Equity shows the changes in equity items in relation to:

- the allocation of profit for the year of the parent company and the subsidiaries to non-controlling interests;
- amounts relating to transactions with shareholders (sale and purchase of treasury shares);
- as required by IFRS, each component of comprehensive income, net of any tax effect, is allocated directly to equity (gains or losses on the purchase and sale of treasury shares) or is covered by an equity reserve (share based payments for stock option plans);
- changes in the cash flow hedge reserves, net of any tax effect;
- the effect of any changes in accounting principles.

For each significant item included in the above schedules, references should be made to the subsequent notes which provide information thereon and details of their make-up and changes compared to prior year.

Finally, we note that significant dealings with related parties have been disclosed in the specific table contained in note 37 “Related party transactions”.

2.3 Basis of consolidation

The consolidated financial statements are based on the financial statements of parent company KOS S.p.A. and its direct and/or indirect subsidiaries, taking account of the dates from which control was acquired.
The most significant consolidation policies adopted when preparing the consolidated financial statements are outlined below.

These policies have been applied on a consistent basis to all of the reporting periods presented in this document, except as otherwise stated.

The financial statements have been prepared on a going concern basis. The Directors have concluded that, notwithstanding the difficult economic and financial environment, there are no going concern issues.

Subsidiaries

Subsidiaries are entities over which the Group exercises control as defined by the new IFRS 10 – Consolidated financial statements. KOS S.p.A. controls an entity when, through the exercise of its power over the entity, it is exposed or has rights to variable returns, from its involvement with the entity and has the ability to affect those returns. The exercise of power over an entity derives from the existence of rights that give KOS S.p.A. the current ability to direct the relevant activities, also in its interests. In order to assess whether the Group controls another entity, consideration is given to the existence and effect of potential voting rights exercisable or convertible at that time. Subsidiaries are consolidated line-by-line from the date on which control is transferred to the Group and deconsolidated from the date on which control ends.
Whenever necessary, adjustments were made to the subsidiaries' financial statements in order to bring the accounting policies into line with those adopted by the Group.

Consolidation is performed on a line by line basis. The assets and liabilities, income and expenses of the subsidiaries are included on a line by line basis in the consolidated financial statements. The carrying value of the equity investments is eliminated against the corresponding portion of the equity of the subsidiaries after stating individual assets, liabilities and contingent liabilities at their fair value at the date control was acquired. Any remaining, positive difference is allocated to the non-current asset "Goodwill".
If, following another test, the acquisition cost is below the market value of net assets of the subsidiary acquired, the difference is directly accounted for in an equity reserve.
The statement of financial position and income statement effects of intercompany transactions are eliminated.
Unrealised losses are eliminated and are considered as an indication of impairment in the transferred asset.

Associates

Associates are companies over which the Group exercises significant influence on financial and operational policy, as defined in IAS 28 – Investments in Associates but without their being subsidiaries or companies subject to joint control. The consolidated financial statements include the Group share of the results of equity-accounted associates, from the date the significant influence began until the date that it ends. When the Group's share in the losses of an associate exceeds the carrying amount of the investment, the amount of the investment is fully impaired and the amount of any additional losses is not recognised except insofar as the Group is required to cover them. In the event of transactions between Group companies and associates, any gains and losses are eliminated on the basis of the percentage interests held.

Companies under common control

These are companies in which the Group has a share of control established by contract or, for which, there are contractual agreements whereby two or more parties undertake a business activity subject to common control. Investments in entities under common control, which cannot be classed as joint operations, are accounted for using the equity method from the date on which common control commences until the date it ceases to exist.

Business combinations and goodwill

When businesses or business units are acquired from third parties, including through merger or transfer, the assets, liabilities and contingent liabilities acquired and identifiable are recognised at fair value as at the acquisition date.
Any positive difference between the acquisition cost and the fair value of such assets and liabilities is recognised in goodwill and classified as intangible asset with an indefinite useful life.
Any negative difference ("Negative goodwill") is charged to the income statement when the acquisition takes place.
Costs relating to business combinations are recognised in the income statement.

Goodwill is initially recognised at cost and subsequently decreased for impairment of value. Once a year – or more frequently if specific events or altered circumstances suggest the possibility of an impairment of value – the goodwill undergoes an impairment test in accordance with IAS 36 (Impairment of Assets); the original value is not restored if the reasons that led to the impairment cease to apply.
Goodwill is never revalued, not even under specific legislation, and the impairment of goodwill is never reversed .
Any liabilities relating to business combinations for conditional payments are recognised on the date of acquisition of the businesses and the going concerns relating to the business combinations.
If all or part of a business previously acquired is sold and goodwill arose upon that acquisition, the value attributable to goodwill is taken into account when the gain or loss on disposal is calculated.

Non-controlling interests

The portion of capital and reserves attributable to non-controlling interests in consolidated subsidiaries and the portion of the profit or loss for the year of consolidated subsidiaries attributable to non-controlling interests are disclosed separately in the statement of financial position and in the income statement. Losses attributable to non-controlling interests that exceed their share of the subsidiary's equity are allocated to equity pertaining to non-controlling interests. Changes in the percentage of ownership of subsidiaries that do not lead to the acquisition/loss of control are recognised as changes in equity.

Acquisition of non-controlling interests

Once control of an entity has been obtained, any transactions in which the parent company acquires or sells non-controlling interests without affecting its control over the subsidiary are transactions with shareholders and must be recognised in equity. It follows that the carrying amount of the controlling investment and non-controlling interests must be adjusted to reflect the change in the interest in the subsidiary and any difference between the amount of the adjustment to non-controlling interests and the fair value of the consideration paid or received for the transaction is recognised directly in equity and allocated to the owners of the parent company. There are no adjustments to the amount of goodwill and to profits or losses recognised in the income statement. Charges relating to such transactions must be recognised in equity in accordance with Paragraph 35 of IAS 32. IFRS 10 establishes that once control over an entity has been obtained, transactions whereby the parent acquires or disposes of additional non-controlling interests without altering its control over the subsidiary are transactions with shareholders and must be recognised in equity.

Intercompany dividends

Dividends paid between Group companies are eliminated from the income statement.

2.4 Main accounting policies and valuation criteria

NON-CURRENT ASSETS

Intangible assets

As defined by IAS 38 (Intangible assets), intangible assets are identifiable assets without physical substance that are controlled by the entity and from which future benefits are expected.
These non-current assets also include "goodwill" when it is acquired against consideration.
Intangible assets and goodwill are recognised at purchase cost including any related expenses and expenses needed to make the asset available for use. They are stated net of accumulated amortisation and impairment adjustments.

Intangible assets with a finite useful life are amortised on a straight line basis over their expected useful life i.e. the estimated period over which the assets will be used by the entity. It is assumed that their residual value at the end of the useful life will be zero unless third parties have made a commitment to purchase an asset at the end of its useful life or if there is an active market for the intangible asset.
Other intangible assets with an indefinite useful life are not amortised but subjected to an impairment test at least on an annual basis. The test performed is described in the "Impairment of assets" paragraph.

Upon disposal of all or part of a business previously acquired and whose acquisition led to the emergence of goodwill, the net carrying amount of the goodwill is taken into account when determining the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost including any ancillary charges and direct costs necessary to make the asset available for use. When such assets form part of the acquisition of an entity, they are recognised at fair value at acquisition date.
Ordinary repair and maintenance costs are taken to profit or loss for the year in which they are incurred. Extraordinary maintenance costs that lead to a significant and tangible increase in the productivity or useful life of an asset are recognised as an increase in the asset value and are depreciated over its useful life.
Leasehold improvements are recognised in the appropriate category.
Individual components of an item of property, plant and equipment with different useful lives are recognised separately and depreciated over their useful lives on a component based approach.
If it is probable that the Group will enjoy the future benefits resulting from the cost incurred to replace a component of property, plant and equipment and the cost of that component can be reliably determined, said cost is recorded as an increase to the carrying amount of the component in question.
Property, plant and equipment are depreciated on a straight line basis every year over a depreciation period that reflects their estimated useful lives. They are shown in the statement of financial position net of accumulated depreciation based on their remaining useful lives.
If there are indicators of impairment, the assets are tested for impairment. The test performed is described in the "Impairment of assets" paragraph. Any impairment losses may be reversed in future periods.
Pursuant to revised IAS 23 "Borrowing costs", borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset in relation to which the Group has commenced an investment, incurred borrowing costs or began preparing the asset for its intended use or sale are capitalised as from 1 January 2009. The changes to this accounting standard have not had a significant effect on the consolidated financial statements of the KOS Group.

Investment property

The Group's investment property includes real estate properties not used in its ordinary operating activities.

Investment property was recognised when allocating part of the price paid for the Sanatrix Group at fair value based on their state of use. Fair value is determined on the basis of specific valuations commissioned from a leading independent valuation firm.

Costs incurred post-acquisition are only capitalised if they lead to an increase in the future economic benefits from the asset to which they relate. All other costs are taken to profit or loss when they are incurred. After the date of initial recognition, the Group has chosen to adopt the cost method.

Depreciation is determined on a straight-line basis over the estimated useful life of the property based on the independent valuation as above.

Land is not depreciated.

Finance leases

Assets acquired under finance leases are capitalised at the lower of market value and their value based on the discounted amount of the lease payments plus the final purchase option when the finance lease was signed. These assets are depreciated over the shorter of their estimated useful life and the finance lease period. The related liability is recorded under "Other financial liabilities".

Finance lease payments are split between financial charges and repayment of the debt principal considering a constant interest rate on the outstanding debt recorded in the statement of financial position. The financial charges are charged immediately to the income statement except when they relate to assets not yet ready for use, in which case they are capitalised.

If a contract entered into by the Group does not have the legal form of a finance lease but provides for the right of use and a final purchase option on certain assets and includes other conditions specified by IAS 17 and IFRIC 4, it shall be considered akin to a finance lease and accounted for in accordance with IAS 17.

Leases where the lessor maintains most of the risks and benefits of ownership of the assets (in the Group's case, especially significant in the case of the real estate properties at which it conducts its activities, especially when these properties are subject to specific authorisations regarding the number of beds) are classified as operating leases. Revenue (costs) relating to operating leases are recorded in the income statement over the period of the lease agreement.

Government Grants

Government grants are recognised when, irrespective of whether or not they have been formally approved, it is reasonably certain that the recipient company will satisfy the conditions for approval and the grant will be received.

Capital grants are recorded in the statement of financial position as deferred income – then taken to the income statement over the useful life of the fixed asset in relation to which they were granted, in such a way as to reduce the depreciation charge – or by deducting them directly from the fixed asset to which they relate.

Government grants available to reimburse expenses or costs already incurred or to provide immediate financial assistance to the recipient company without there being any related future costs are recorded as income in the period in which they become available.

Impairment of assets

The carrying amounts of the intangible assets and property, plant and equipment of the KOS Group are measured whenever there are internal or external indications that the value of the asset or Cash Generating Unit ("CGU") has been impaired.

At every reporting date, the Group reviews the carrying amount of its tangible assets, intangible assets and equity investments to ascertain if there are any indicators of impairment. In any case, goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually. If there are indicators of impairment, the recoverable value of the assets is estimated so as to determine the amount of any impairment. Where it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. When determining the value in use, the estimated future cash flow is discounted to present value at a rate that reflects current market valuations of the value of money and the specific risks relating to the asset.

If the estimated recoverable amount of an asset (or a cash generating unit) is lower than its carrying amount, the latter is reduced to bring it into line with the recoverable amount. Any impairment is taken immediately to profit or loss.

Except for goodwill, impairment is reversed when there is an indication that the impairment no longer exists or when there has been a change in the valuations used to determine recoverable amount. Carrying amount after the reversal of an impairment adjustment shall not exceed the carrying amount that would have emerged (after amortisation) if the impairment adjustment had never been recorded.

Investments in other entities

Investments in other entities that constitute non-current financial assets not held for trading (i.e. available for sale financial assets) are initially recognised at fair value, if determinable, and gains and losses from changes in fair value are directly allocated to equity until the investments are transferred or their value is impaired. At that time, all of the gains or losses previously recognised under equity are taken to profit or loss. In the event of impairment, the initial value is not reinstated if the conditions that led to the impairment cease to apply.

Investments in other entities whose fair value is not available are recognised at cost, adjusted to reflect any impairment through profit or loss. The risk of impairment losses in excess of the carrying amount of the investment is recorded in a specific provision to the extent that the investor entity is required to fulfil legal or other obligations towards the investee entity or, in any case, to cover its losses.

Dividends received from such entities are included in the line item profits (losses) from equity investments.

CURRENT ASSETS

Inventories

Inventories are recognised at the lower of purchase or production cost – determined under the weighted average cost method – and estimated realisable value.

Trade receivables and other assets

Receivables are initially recognised at fair value which is normally equal to their nominal value except in cases where, due to significant delays in collection, it is determined applying the amortised cost method, where considered relevant; at the reporting date, they are stated at estimated realisable value and adjusted for impairment.

Trade receivables, receivables from parent companies, subsidiaries and associates and other assets are initially recognised at fair value i.e. the amount of the consideration less any directly attributable transaction costs. After initial recognition, they are stated at amortised cost, where considered significant, as adjusted for impairment. The Company recognises impairment of receivables through an allowance for impairment. However, when it is certain that it will not be possible to recover the amount due, the receivable in question is adjusted directly for the amount considered irrecoverable.

Impairment is determined based on the ability to pay of the individual debtors, also taking account of the specific characteristics of the underlying credit risk, bearing in mind the information available and past experience.

Factoring of receivables

Receivables transferred under factoring transactions are only eliminated from the assets side of the statement of financial position if the related risks and benefits have been substantially transferred to the factor. Factored receivables that do not fulfil this requirement remain on the Group statement of financial position even though they have been legally transferred. In such cases, a financial liability for the same amount is recognised for the factoring advances received.

Tax receivables

Tax receivables are recognised at fair value and include amounts receivable from the tax authorities or that can be offset in the short term. See also under "Taxes on income".

Other current assets

Other current assets are recognised at the lower of cost and net realisable value.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank balances that can be accessed immediately.
Cash equivalents include short-term investments, immediately accessible and readily convertible into cash and not subject to any significant risk of change.
Cash on hand in Euro is stated at nominal value while any balances in other currencies are recognised at the year-end spot rate.

EQUITY

Ordinary shares are stated at nominal amount. Costs directly attributable to the issue of new quotas are deducted from the equity reserves, net of any related tax benefit. In case of purchases of treasury quotas recognised in equity, the consideration paid – including directly attributable expenses and after tax effects – is recognised as a reduction to equity. The consideration received from the subsequent sale or reissue of treasury quotas is recognised as an increase to equity. Any positive or negative difference resulting from the transaction is transferred directly to/from retained earnings.

Treasury shares

Treasury shares are classified in a separate item in equity; any subsequent disposal, reissue or cancellation does not have any impact on the income statement, only on equity.

Fair value reserve

Any unrealised gains or losses – net of tax effects – on financial assets classified as "available-for-sale" are recognised in equity under the "fair value reserve".
The reserve is transferred to profit or loss upon realisation of the financial asset or upon recording a permanent impairment of its value.

Cash flow hedge reserve

The cash flow hedge reserve is generated when changes in the fair value of derivatives designated, for IAS 39 purposes, as cash flow hedges are recognised. The portion of the gain or loss considered "effective" is recognised under equity and taken to profit or loss over the periods – and in the manner – in which the hedged items flow through profit or loss in the period in which the related effect of the hedged transaction on profit or loss is recognised. Any gain or loss associated with a hedge that has become ineffective is recognised immediately in profit or loss.

CURRENT AND NON-CURRENT LIABILITIES

Financial liabilities

Financial liabilities are only recognised in the statement of financial position when the Group becomes party to a contract regarding the financial instrument in question. Except for derivatives, financial liabilities are recognised at amortised cost, where considered significant, based on the effective interest method.
Financial liabilities for derivatives are initially entered at fair value, plus any transaction costs.
The financial liability is derecognised when the obligation specified under the contract is fulfilled or cancelled or expires. Any difference between the carrying amount of the financial liability extinguished or transferred to another party and the price paid is recognised in profit or loss.

Provisions for risks and charges

Accruals to provisions are recognised when: (i) the existence of an actual, legal or implied obligation resulting from a past event is probable; (ii) it is probable that fulfilment of the obligation will involve a cost; (iii) the amount of the obligation can be reliably estimated. Such accruals are recognised at an amount representing the best estimate of the amount that the entity will reasonably pay to extinguish the obligation or to transfer it to third parties at year end. When the financial effect of time is significant and the payment dates of the obligation can be reliably estimated, the provision is discounted. Increases in the provision due to the passage of time are recognised in the income statement under "Financial income and expenses". The Notes to the Financial Statements contain a short description of contingent liabilities and, where possible, an estimate of their cash effects, details of uncertainty regarding their amount and when the related cash outflow will take place. No provision is made for future operating expenses.

Post-employment benefits

Post-employment benefits are defined on the basis of plans, which may or may not be formalised, which are categorised as either defined contribution plans or defined benefit plans depending on their characteristics.
Under defined contribution plans, the company's obligation – limited to paying over contributions to the State or

to a fund or a legally separate entity – is determined based on the contributions due.
Post-employment benefits ("*TFR*"), compulsory for Italian companies under Article 2120 of the Italian Civil Code, constitute a form of deferred remuneration and depend on the length of service of the employees and the remuneration received during the period of service. With effect from 1 January 2007, the Finance Act and the related decrees of implementation introduced changes to the rules on the TFR. The changes included giving employees the chance to choose where their TFR entitlement was allocated as it accrued (to supplementary pension funds or to the "Treasury Fund" managed by state pensions and social security body INPS).
Therefore, the obligation towards INPS and the contributions towards supplementary pensions are "Defined contribution plans" while the amounts recognised in the TFR provision until 31 December 2006 continue to be "Defined benefit plans" in terms of IAS 19.
As required by the revised version of IAS 19, actuarial gains and losses are recognised in "Other Comprehensive Income" in the period in which they arise. These actuarial differences are immediately recognised under retained earnings and are not recognised in the income statement in subsequent periods. See Note 3.1 "Comparability of financial statements" for more details.

Trade payables and other liabilities

Trade payables and other liabilities are initially recognised at fair value plus transaction costs. They are subsequently measured at nominal value. There is no discounting or separate allocation to the income statement of explicit or discorporated interest expenses as they are not material in light of the expected payment periods.
Accruals for expected liabilities are liabilities for goods or services that have been received or provided but not paid for and include amounts due to employees and other parties.
The timing and amount of accruals for expected liabilities are subject to less uncertainty than other provisions.
The Group operates almost exclusively on the Italian market. Any foreign currency receivables and payables are translated at reporting date exchange rates. Payables are initially recognised at fair value at the transaction date i.e. the amount of the consideration agreed with the counterparty, minus directly attributable transaction costs. After initial recognition, payables are recognised at amortised cost, where considered significant.

INCOME STATEMENT

Revenue and costs

Service revenue is recognised when the services are rendered, taking account of the state of completion of the services at the reporting date.
Revenue is stated net of discounts and any directly related taxes. It is recognised in profit or loss when the related risks and benefits are transferred to the purchaser, it is probable that the consideration will be recovered and the related costs can be reliably estimated.
Costs are recognised in the income statement when they relate to goods or services purchased or consumed during the year or by spreading them over a certain period when their future usefulness cannot be identified.
The purchase cost of goods is recognised net of discounts granted by suppliers. Related credits are recognised on an accruals basis in light of information provided by the suppliers.

Dividends

Dividends are recognised when they are approved by the General Meeting.

Financial income and expenses

Financial income and expenses are recognised in the income statement on an accruals basis, during the reporting period in which they are incurred. Borrowing costs incurred for investments in assets it normally takes some to prepare for use or for sale (qualifying assets) are capitalised and amortised over the useful life of the assets to which they refer.

Earnings per share

Basic:

Basic earnings (loss) per share is calculated by dividing the Group profit or loss by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares .

Diluted:

Diluted earnings per share is calculated by dividing the Group result by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares. When calculating diluted earnings per share, the aforesaid weighted average number of outstanding shares is adjusted to take account of all holders of rights that with a potential dilution effect while the Group's net result is adjusted to take account of any effect – after tax - of the exercise of these rights.
Pursuant to IAS 33, the dilution effect is only calculated solely when it leads to lower earnings per share/higher loss per share than the basic earnings/loss per share.

Share-based payments

Given their remuneration like nature, personnel expense includes stock options vesting at the reporting date and the vested portion of assigned warrants.
The cost is determined based on the fair value of the right allocated. The amount relating to the period is determined on a proportionate basis over the vesting period.

The fair value of stock options is recognised with the contra- entry made to equity item "Reserves".

The fair value of stock options and warrants is determined when they are assigned under the scheme using specific models and multiplying the number of options exercisable in the period; the number of options exercisable is determined using appropriate actuarial variables. At the reporting date, the Group revises its estimates of the number of options expected to be exercised, as possibly affected by exercise conditions not based on the market. The impact of any such revision is recognised in the income statement for the period with a corresponding entry made to "Stock Option Reserves" under equity for an amount that means cumulative costs correspond to the adjusted value based on the estimates made.

Income taxes

Current taxes are calculated for each of the Group companies based on estimated taxable income. The estimated liability is recognised under "Tax liabilities". Tax liabilities and receivables for current taxes are recognised at the amount expected to be paid/recovered to/from the tax authorities by applying the tax rates and the tax regulations currently applicable or substantially approved at the year end.

Deferred tax assets and liabilities are calculated based on the *"liability method"* on temporary differences between the value of the assets and liabilities in the statement of financial position and their corresponding value for tax purposes. Deferred tax liabilities are recognised on all temporary differences while deferred tax assets are recognised insofar as it is considered probable that there will be future taxable income against which the deductible temporary differences can be offset as they reverse.

The carrying amount of the deferred tax assets is revised at every year end and reduced insofar as it is no longer probable that there will be sufficient taxable income against which to recover all or part of them.

Deferred taxes are charged directly to the income statement except for those relating to items recognised directly under equity in which case the related deferred taxes are also charged against equity.

Deferred tax assets and deferred tax liabilities are recognised as non-current assets and liabilities. They are offset at individual company level if they relate to offsettable taxation due to the same tax authority and the company intends to liquidate its tax assets and liabilities on a net basis. After offsetting, any net asset is recognised under *"Deferred tax assets"* while any net liability is recognised under *"Deferred tax liabilities*.

KOS S.p.A. (period 2016-2018), Medipass S.r.l. (period 2016-2018), Residenze Anni Azzurri S.r.l., now merged into Kos Care (period 2014-2016), HSS Real Estate S.r.l. (period 2014-2016), Istituto di Riabilitazione S. Stefano S.r.l., now merged into Kos Care (period 2016-2018) and Jesilab (period 2016-2018) have joined the Italian

tax consolidation scheme set up by ultimate parent company CIR S.p.A. in accordance with Article 117/129 of the Consolidated Income Tax Act (*Testo Unico delle Imposte sul Reddito (T.U.I.R*)).
The companies taking part in the Italian tax consolidation scheme transfer their taxable income or tax loss to the consolidating company. The consolidating company recognises an asset from companies that transfer taxable income in the amount of the IRES liability. Meanwhile, the consolidating company records a liability to companies that transfer tax losses in the amount of the IRES on the loss actually offset at Group level.

Derivative instruments

Derivative instruments are assets and liabilities recognised at fair value.
Derivatives are classified as hedging instruments when there is a genuine, documented hedging relationship and the effectiveness of the hedge – as regularly tested - is high.

When hedging derivatives hedge the risk of changes in the fair value of the instruments being hedged ("*fair value hedges"*, e.g. hedging of changes in the "*fair value*" of fixed rate assets/liabilities), the derivatives are recognised at "*fair value*" with the effects recognised in the income statement; accordingly, the hedged instruments are restated to reflect changes in fair value associated with the hedged risk.
When the derivatives hedge the risk of changes in cash flows from the hedged instruments ("*cash flow hedges*", e.g. hedging of changes in cash flow from assets/liabilities due to interest rate fluctuation), the intrinsic value of the gains or losses on the derivative financial instrument is suspended under equity. Gains or losses relating to a hedge that has become ineffective are recognised in profit or loss. Moreover, if a hedging instrument or a hedging relationship is completed but the hedged operation has not yet been realised, gains and losses accumulated to date – and recognised under equity until then – are recognised in profit or loss when the transaction in question is realised.

Changes in the fair value of derivatives that do not satisfy the conditions to be classified as hedges are recognised in the income statement.

FINANCIAL INSTRUMENTS

IFRS7 requires additional disclosures on financial instruments. For this reason and in order to provide a better and clearer understanding of the financial issues, we have set aside a specific section to deal with IAS 32 and 39 and IFRS7.

Under IAS 39, financial instruments are classified into four categories:

- financial instruments at fair value through the profit and loss (fair value through profit and loss – FVTPL) and held for trading;
- assets held to maturity (held to maturity – HTM);
- loans and receivables (loans and receivables – L&R);
- financial assets available for sale (available for sale – AFS).

The classification depends on the functional destination of the financial instruments as part of financial activities and leads to a different book valuation; financial operations are accounted for based on their "value date".

Financial instruments measured at fair value through profit and loss

Financial instruments that meet one of the following conditions are classified in this category:

- they are held for trading;
- they are designated financial assets under the "*fair value option*" whose *fair value* can be reliably determined.

The trading concept normally reflects frequent purchases and sales with the aim of generating profit due to short term price changes.
Derivative instruments are included in this category unless they are classed as hedging instruments.

The initial designation of financial assets, other than derivatives and those held for trading, as financial assets stated at fair value going directly through the P&L under the "*fair value option*" is restricted to instruments that satisfy the following conditions:

- the designation under the "*fair value option*" eliminates or significantly reduces an imbalance in their accounting treatment;
- group of financial assets, financial liabilities or both are managed and their performance is determined at fair value based on a documented investment risk management strategy, and
- an instrument includes an embedded derivative that meets specific conditions.

Held-to-maturity investments

This category includes non-derivative financial assets with fixed or determinable payments and with fixed maturity that are intended to be and can be held until maturity.
These instruments are valued at amortised cost, where considered significant, net of any write-down.
Amortised cost is determined by applying the effective interest rate of the financial instrument, considering any discounts or premiums obtained or paid upon acquisition and spreading them over the entire period of time until maturity.
Amortised cost is the value at which a financial instrument is measured upon initial recognition, less any capital repayments and impairment writedowns, plus or minus total amortisation of the difference between initial value and value upon maturity as calculated by using the effective interest rate method.
The effective rate of interest method is a calculation method intended to allocate financial charges to the appropriate accounting period.
The effective rate of interest is the rate which correctly discounts the expected flow of cash payments until maturity in order to provide the net present value of the financial instrument.
In case of the early sale (unless involving a wholly immaterial amount) with no specific reasons, of even one security belonging to this category, all of the other investments classified as *Held to maturity* must be reclassified as assets available for sale and measured at fair value with a ban on using this category for the next two years (so-called *tainting rule*).

Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted on an active market and are not held for trading.
This category includes trade receivables (and payables) that are classified as current, except for the amount due more than 12 months from the date of the financial statements (which are classified as non-current assets).
These instruments are valued under the amortised cost method, using the effective rate of interest and taking account of any discounts or premiums obtained or paid upon acquisition and spreading them across the period until maturity of the instruments.

Available-for-sale financial assets

This is a catch-all category that includes non-derivative financial assets designated as available for sale and not classified under one of the previous categories.
Financial assets available for sale are stated at fair value plus any incidental acquisition costs.

Gains or losses on financial assets available for sale are recognised under equity until the related financial instruments are sold or impaired. If an asset is sold or written down, the gains or losses recognised in equity until then are taken to profit or loss. Gains and losses generated by changes in the fair value of financial instruments classified as held for trading are recognised in profit or loss.

Fair value is the amount at which an asset may be traded or a liability settled in a free transaction between well informed and independent parties.

In the case of securities traded on regulated markets, the fair value is determined based on the bid price at the close of trading on the period end date.
If a market valuation is not available, fair value is determined based on either the current value of another largely similar financial instrument or using a suitable financial method (e.g. discounted cash flow method).
Investments in financial assets can only be derecognised when the commercial rights to receive related cash flows have expired or upon the transfer of the financial asset to third parties together with all related risks and rewards.

2.5 Main accounting estimates and assumptions

When the financial statements were prepared, several accounting estimates and assumptions were made based on past experience and other factors, including expectations about future events it is reasonable to believe will occur.

Use of accounting estimates

The preparation of the financial statements and the accompanying notes in accordance with IFRS involves the use by Management of estimates and assumptions that are reflected in the assets and liabilities and in the information disclosed.
The estimates and assumptions used are based on experience and on other factors deemed relevant. Although the on-going review process means that the accounting estimates are increasingly reliable, the actual results may, however, differ from them and, in this case, the effects of any change will be reflected in the income statement for the period in which the estimate adjustment takes place if the change only regards that period or also in subsequent periods if the adjustment will affect both the current year and future periods.
We summarise below the valuation processes and the key assumptions used by the management when applying the accounting principles with regard to the future that may have a significant impact on the figures reported in the consolidated financial statements or which may lead to the need for adjustments to assets and liabilities in the financial year following the current one.

Goodwill and non-current assets

An impairment test was performed on the goodwill and non-current assets recognised in the financial statements by calculating the value in use of the Cash Generating Units ("CGU") to which goodwill has been allocated. Specifically, using different methods for each operating segment, the KOS Group applied: a first level test in which, for each CGU (identified on a regional basis), it determined the recoverable amount t of property, plant and equipmant and intangible assets; and a second level test which considered the entire operating segment ((Long Term Care, Acute Care, Diagnostic Services and Cancer Care).

These CGUs were identified, based on the organisational and business structure of the Group, as units capable of autonomously generating cash flow through the ongoing utilisation of their assets.

Value in use was determined by discounting the expected cash flows for each CGU in its present condition and exclude the estimated future cash flows that might be generated as a result of future restructuring plans or other structural changes.

This was done using the Discounted Cash Flow Model which requires that future cash flows be discounted at a rate that adequately reflects the risks.

Further information on the method adopted is provided in the notes on Impairment of assets and Intangible assets.

The 2018-2022 business plan approved by the KOS S.p.A. Board of Directors, used as the basis for the impairment test, is based on variables that can be controlled by Group management and on assumptions regarding variables that cannot be directly controlled or managed by Group Management.

The plan was drawn up starting from the 2018 Budget, as based on detailed forecasts for each Group healthcare facility and using specific key value drivers for the remainder of the period.

The main estimates made when preparing the business plan based on which the impairment test was performed generally regarded the assumption that, although they relate to essential services and complement the services provided by the Italian National Health Service, the Group's activities could decrease because of the current financial crisis and its possible effects on the public and health care expenditure.

Accordingly, the business plan takes account of the important legislative changes introduced in recent years ("spending review" effects) in order to reduce public spending on both a national and a regional level.

Nonetheless, management believes that, taking account of demographic change with the gradual ageing of the population, the previous trend of health care expenditure and business development plans regarding specific geographical areas, the occupancy rate of beds per specific project can reach higher saturation levels for new initiatives launched recently and for facilities where specific measures have been taken and/or the occupancy rate will remain in line with prior year results for the remaining facilities.

Moreover, in general terms, the tariff growth rate deemed reasonable for forecast purposes was considered in line with inflation and, therefore, with expected cost increases.

It has also been assumed that, in the medium term, the terms of payment for accredited services by the regions will remain broadly stable. A similar approach was adopted with regard to the fees payable by private individuals in the Nursing Homes business area. Partial *ad hoc* increases were assumed on a facility by facility basis.

With regard to Ospedale di Suzzara - which incurred losses in prior years - the Directors have embarked upon and assumed in the business plan period, a number of re-organisation and rationalisation measures that will involve significant change on the past. These measures involve increasing volumes in the inpatient sector taking advantage of cross-region rehabilitation and in diagnostic and outpatient services as well as at increasing revenues.
The Business Plan assumptions were made on the basis of the existing agreement on personnel costs.

The Directors have considered the uncertainty involved in this situation and doubts as to the achievability of the business plan objectives. However, they have concluded that the business plan objectives are achievable and that the value of the assets recognised by Ospedale di Suzzara was not impaired at the reporting date.

Should the main estimates and assumptions made in the plan change, leading to different impairment test results, the value in use and the result actually achieved in terms of realisable value of the assets may change too. Therefore, the Group cannot guarantee that the value of goodwill and other assets recognised at 31 December 2017 will not be impaired in future periods.

Other investments

Other equity investments fall under the category of assets available for sale, given the failure to meet significant influence requirements and taking account of the fact that the following circumstances exist in relation to these equity investments:

- there is no representation on the Board of Directors
- there is no participation in the decision-making process
- there are no significant transactions
- there is no exchange of management personnel or supply of key technical information

These equity investments are recognised at cost.

Fair value of derivative instruments

For the purposes of these financial statements it was necessary to determine the fair value of:

- 12 IRS (interest rate swap) contracts
- 7 interest rate cap contracts.

The above derivatives were entered into in order to hedge the interest rate risk.

Except for a few instruments, all derivatives fully meet the hedge accounting requirements of IAS 39 (formal designation of the hedging relationship, documented, measurable and highly effective hedging relationship); the said derivatives have been recognised under the *cash flow hedge* accounting method providing, in this case, for the allocation of the intrinsic value to equity as at the contract date.

The derivative instruments that did not meet all the hedge accounting requirements of IAS 39 are an IRS activated in 2013 by HSS Real Estate S.r.l., a monthly Cap activated by Sanatrix Gestioni S.r.l. and four IRS contracts which were transferred to the Group following the acquisition of Polo Geriatrico Riabilitativo S.p.A. and Ecomedica S.p.A. and which proved to be ineffective immediately after the acquisition.

Subsequent changes in fair value (for the intrinsic portion*)* resulting from interest rate fluctuations, in the range of the effective portion of the hedge, are also recognised in equity.

In 2017, with a view to the forthcoming bond issue (the issue took place on 18 October 2017), on 2 August 2017, KOS SpA signed a Pre Hedge contract, a swap with the following characteristics: *trade date* 2 August 2017, *effective date* 31 October 2017, *termination date* 31 October 2024, notional amount € 25 million, swap rate 0.6250%. The derivative was extinguished in mid-October at the same time as the bond issue. Its FV at closing date was € -150 thousand. As it was a hedging instrument, FV at the closing date was recognised in the cash flow hedge reserve and will be released to profit or loss over the period of the related bond loan.

Also in August 2017, KOS Spa signed two Interest Rate Swap contracts with leading banks in order to cover the risk regarding drawdowns totalling €26 million made on the ING Natixis line of credit in 2017.
These two IRS contracts have the following characteristics: *start date* 31 December 2017, *termination date* 6 April 2022. IRS raw of 0.37% and 0,385%, respectively, against the Euribor 6 month rate. Both instruments are linked to the underlying loans and proved to be hedges at 31 December 2017. Consequently, their FV was recognised in the cash flow hedge reserve.

Stock options and warrants

For the purposes of these financial statements, the income statement and statement of financial position effects of the stock option plan and warrants in place for some members of the Board of Directors and employees of KOS S.p.A. and its subsidiaries are accounted for.
The cost of the plan was determined by estimating the fair value, at the date of assignation, of the rights assigned in prior years to the individual members of the plan, as revised to take account of the vesting conditions at the reporting date.

Amortisation and depreciation

Property, plant and equipment and intangible assets with a definite useful life are respectively depreciated and amortised on a straight line basis over their useful lives.
Useful life is intended as the period over which the assets will be used by the Group.
It is estimated based on past experience for similar assets, on market conditions and on other events that could have an influence on useful life e.g. significant technological progress or change.
This means that the actual economic life may differ from the estimated useful life.
The Group normally tests the validity of the estimated useful life of each asset category on a periodical basis. These tests could lead to changes in the depreciation/amortisation periods and in depreciation/amortisation charges in future years.

Allocations to the allowance for impairment

When assessing the recoverability of its receivables, the Group makes forecasts regarding the ability of its debtors to pay, taking account of the information available and considering past experience.
The actual recoverable amount of receivables may differ from the estimated value due to uncertainty over the

conditions based on which ability to pay was determined.

Contingent liabilities

The Group recognises provision for risks and charges based on assumptions that essentially relate to the amounts that would reasonably be paid to extinguish payment obligations relating to past events.

Litigation and disputes involving the Group can involve complex and difficult legal problems that might be subject to varying levels of uncertainty, in relation to the facts and circumstances of each case and the different laws applicable. The estimate made as a result is based on a thorough process with the involvement of legal and tax experts leading to a subjective judgment being made by Group management. The amounts actually paid to settle the payment obligations or transfer them to third parties may differ significantly from the amount estimated when the provisions are created.

Employee benefits

Liabilities for post-employment benefits are determined applying actuarial methods.
These methods require several work related and demographic estimates to be made (mortality rate, disability rate, retirement, etc.) as well as economic/financial estimates (technical discount rate, rate of inflation, percentage of wage increases, TFR growth rate).
The validity of the estimates made essentially depends on the stability of the regulatory background, on market interest rate trends, on salary trends and on how often employees request advance payments.

Income taxes

Current taxes for the year are calculated based on estimated taxable income, applying the tax rates in force when the financial statements are prepared.
Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts of the assets and liabilities and their corresponding tax values; they are calculated based on the tax rates expected to be in force when the assets are realised or the liabilities extinguished. Deferred tax assets are recognised where it is considered probable that they will be recovered. This probability depends on the existence of future taxable income against which deductible temporary differences can be offset. The most recently approved business plans were used to evaluate whether or not there would taxable income in future years; these business plans contain assumptions and estimates that are periodically reviewed so as to confirm that they can be realised.

Costs of seconded personnel

In a letter dated 28 December 2012, Azienda Ospedaliera Carlo Poma unilaterally terminated the contract from 1 January 2013, citing financial and budget problems that have never been documented. Its letter was followed by an exchange of correspondence which highlighted two contrasting interpretations of the contractual safeguards: Azienda Ospedaliera Carlo Poma confirmed its initial letter while Ospedale di Suzzara stated that the contractual safeguards had not been properly applied and repeated that the contract was valid until 31/12/2013.
Until such time as the dispute is concluded, the Company has suspended payment of the invoices issued by Azienda Ospedaliera Carlo Poma using as a reference the personnel costs relating to 2013 in excess of the February 2011 agreement. This only regards seconded personnel as SUMAI (“Specialist medical”) personnel continues to be charged at effective cost.

2.6 ACCOUNTING STANDARDS, AMENDMENTS, IMPROVEMENTS AND INTERPRETATIONS APPLICABLE AS FROM 1 JANUARY 2017

The following accounting standards, amendments, IFRS interpretations and improvements were applied for the first time by the Group from 1 January 2017:

Amendments to IAS 12 – *Income taxes*

On 19 January 2016, the IASB published several amendments to IAS 12 Income Taxes. The document “Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)” aims to clarify how to account for deferred tax assets relating to debt instruments measured at fair value. The amendments are applicable from financial statements for annual reporting periods commencing on or after 1 January 2017.

Amendments to IAS 7 – *Statement of Cash Flows*

On 29 January 2016, the IASB published several amendments to IAS 7 Statement of cash flows. The scope of the Disclosure initiative (Amendments to IAS 7) document is to improve the presentation and disclosure of information in financial reports and to resolve some of the issues highlighted by operators. The amendments introduce new disclosures for changes in assets and liabilities due to financing activities. The amendments are applicable to financial statements for annual reporting periods commencing on or after 1 January 2017.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION AS AT 31 DECEMBER 2017

At the date of preparation of these annual financial statements, the relevant bodies of the European Union had completed the endorsement process necessary for the adoption of the accounting standards and amendments below. The Group chose not to elect for the option of early adoption in relation to the accounting standards applicable to it.

An assessment of the possible impact of these standards, amendments and interpretations on the Group is currently in progress.

Estimate of the effects of adoption of IFRS 9 and IFRS 15

The Company will have to adopt IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers with effect from 1 January 2018 and has analysed the effects of first-time application of IFRS 9 and IFRS 15 on its financial statements. The estimate of said effects on equity at 1 January 20’18 is based on evaluations performed to date which have highlighted the following:

- The Company does not expect the application of IFRS 15 to have any significant effects on the recognition, measurement and valuation of revenue from customers;
- The Company does not expect the application of IFRS 9 to have any significant effects on its results or financial position.

It should be noted that the real effects of adopting these standards as at 1 January 2018 could change because:

- The Group has not yet completed its review and assessment of the controls on its new information systems; and
- the new measurement criteria could be subject to modification before presentation of the first set of the Company’s financial statements including the date of first-time application.

IFRS 15 – *Revenue from Contracts with Customers* and Amendments

On 28 May 2014, as part of the IFRS-US GAAP convergence programme, the IASB and the FASB published IFRS 15 – Revenue from Contracts with Customers. This document was adopted by the European Union by means of its regulation no 1905 of 22 September 2016. The standard represents a single, complete framework for revenue recognition and sets out the rules that shall be applied to all contracts with customers (except for contracts falling within the scope of standards on finance leases, insurance contracts and financial instruments). IFRS 15 replaces the previous standards on revenue: IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The new revenue recognition model introduced by IFRS 15 (a five step model) provides that revenue shall be recognised upon the transfer of control over goods or services to the customer (and no longer upon the substantial transfer of risks and rewards) at the consideration to which the entity believes it is entitled (i.e. no longer at fair value). Moreover, on 12 April 2016, the IASB published several clarifications on IFRS Revenue from Contracts with Customers. The new standard, also following the Amendment published by the IASB on 11 September 2015, is applicable to financial statements for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.

IFRS 9 – *Financial instruments*

On 24 July 2014, the IASB published the final version of IFRS 9 – Financial Instruments. The document includes the results of the IASB project with a view to replacing IAS 39. The new standard must be applied for financial statements for reporting periods commencing on or after 1 January 2018 and supersedes all previously issued versions of IFRS 9 in relation to classification and measurement, derecognition, impairment and hedge accounting. The main changes include the fact that for classification and measurement purposes, it is now necessary to consider the business model used to manage financial assets and liabilities and the characteristics of cash flows. Moreover, the standard introduces a new approach to the measurement of expected credit losses and a new hedge accounting model. The new standard is applicable for financial statements for annual reporting periods commencing on or after 1 January 2018.

IFRS 16 – *Leases*

On 13 January 2016, the IASB published IFRS 16 – Leases which replaces IAS 17. This document was adopted by the European Union when it was published on 9 November 2017. IFRS 16 applies to financial statements for annual reporting periods commencing on or after 1 January 2019. The new standard effectively eliminates the different accounting treatment of operating leases and finance leases while containing features that simplify its application and introduces the concept of control to the definition of a lease. In more detail, when determining whether or not a contract is a lease, IFRS 16 requires a test to check whether or not the lessee has the right to control the use of a given asset for a given period of time. Early application is performed for entities that also apply IFRS 15 Revenue from Contracts with Customers.
An assessment of the effects of the introduction of this standard is currently being carried out by teams specifically created for the purpose.

Amendments to IFRS 4 – *Insurance Contracts*

On 12 September 2016, the IASB issued several amendments to IFRS 4 – “Insurance contracts”. The amendments aim to resolve the inconsistencies between the different dates on which IFRS and IFRS 4 come into force.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION AT 31 DECEMBER 2017

As at 31 December 2017, the competent European Union bodies had not yet completed the endorsement process necessary for adoption of the following accounting standards and amendments. An assessment of the possible impact of these standards, amendments and interpretations on the financial statements and on the Income Statement and the Statement of Financial Position is currently in progress.

IFRS 14 – *Regulatory Deferral Accounts*

On 30 January 2014, the IASB published IFRS 14 “Regulatory Deferral Accounts”, an interim standard on the Rate-regulated activities projects. IFRS 14 allows only those entities adopting IFRS for the first time to continue to record amounts regarding rate regulation based on the previous accounting standards adopted. In order to improve comparability with entities that already apply IFRS and that do not recognise such amounts, the standard requires that the effect of rate regulation shall be reported separately from other captions. IFRS 14 would be applicable to financial statements for reporting periods commencing on or after 1 January 2016 and early application is permitted. However, it should be noted that, for now, the European Commission has decided to suspend the Endorsement Process until the IASB issues the final version of the accounting standard.

Amendments to IFRS 10 – *Consolidated financial statements* and to IAS 28 – *Investments in associates and joint ventures*

On 11 September 2014, the IASB published “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (Amendments to IFRS 10 and IAS 28) with the aim of resolving a conflict between IAS 28 and IFRS 10. The amendments establish that, in case of the sale/contribution of assets to a joint venture or associate, or upon the sale of equity interests that lead to a loss of control, while maintaining joint control or significant influence over the associate or joint venture, the amount of the profit (loss) recognised depends on whether or not the assets or the investment represent a business in terms of IFRS 3 “Business combinations”. In particular, if the assets/investment do constitute a business, any gain/(loss) shall be recognised in full. If the assets/investment do not constitute a business, any gain/(loss) shall be recognised only in relation to the portion pertaining to the non-controlling investors in the associated company or joint venture who represent the counterparties in the transaction. In December 2015, the IASB published an Amendment postponing indefinitely when the amendments to IFRS 10 and IAS 28 will come into force.

Amendments to IFRS 2 – *Classification and measurement of Share-based payment transactions*

On 20 June 2016, the IASB issued several amendments to IFRS 2 – “Share-based payments”. This document aims to provide clarification on the accounting treatment of certain types of transactions with share-based payment. The amendments are applicable to financial statements for reporting periods commencing on or after 1 January 2018 but early application is permitted. EU endorsement is expected within the first quarter of 2018.

Annual improvements to IFRS: 2014-2016 cycle

On 8 December 2016, the IASB published the document “Annual Improvements to IFRS Standards 2014-2016 Cycle”. The amendments introduced form part of the ordinary rationalisation and clarification of IFRS and regard the following standards: IFRS 1 First-time adoption of international financial reporting standards, IFRS 12 Disclosure of interests in other entities and IAS 28 Investments in associates and joint ventures.

IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*

On 8 December 2016, the IASB published interpretation IFRIC 22 – “Foreign Currency Transactions and Advance Consideration” in order to clarify the correct accounting treatment for transactions including advance consideration in foreign currency. IFRIC 22 is applicable to financial statements for reporting periods commencing on or after 1 January 2018 and early application is permitted. EU endorsement is expected within the first quarter of 2018.

Amendments to IAS 40 – *Transfers of Investment Property*

On 8 December 2016, the IASB published several amendments to IAS 40 – “Investment Property”. The amendments clarify matters regarding the accounting treatment of transfers of investment property. The amendments are applicable to financial statements for reporting periods commencing on or after 1 January 2018 and early application is permit-ted. EU endorsement is expected within the first quarter of 2018.

IFRIC 23 – *Uncertainty over Income Tax Treatments*

On 7 June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. The interpretation explains how to recognise and measure deferred or current taxation in case of uncertainty over the accounting treatment of certain items; such uncertainty regards interpretation doubts not classified by the relevant tax authorities. IFRIC 23 is applicable to financial statements for reporting periods commencing on or after 1 January 2019 and early application is permitted. EU endorsement is expected during 2018.

Amendments to IFRS 9 - *Prepayment features with Negative Compensation*

On 12 October 2017, the IASB published an amendment to IFRS 9 Financial Instruments. The amendment provides that, depending on the business model adopted, financial instruments with prepayment that could give rise to negative compensation may be accounted for using the amortised cost method or at fair value through other comprehensive income. EU endorsement is expected during 2018.

Amendments to IAS 28 - *Long-term Interests in Associates and Joint Ventures*

On 12 October 2017, the IASB published an amendment to IAS 28 Investment Entities. The amendment clarifies that IFRS 9 shall apply to long-term receivables from an associated company or joint venture which, in substance, form part of the investment in the associated company or joint venture. The amendment also provides that IFRS 9 shall be applied to such receivables before application of IAS 28 so that the entity does not take account of any adjustments to long-term interests resulting from application of said IAS. The amendment applies to financial statements for reporting periods commencing on or after 1 January 2019; early application is permitted.

Annual improvements to IFRS 2015-2017

On 12 December 2017, the IASB published the document "Annual Improvements to IFRS Standards 2015-2017 Cycle". The amendments introduced form part of the ordinary rationalisation and clarification of IFRS and regard the following standards: IAS 12 Income Taxes, IAS 23 Borrowing Costs and IFRS 3 Business Combinations.

3 Information on risks and financial instruments

3.1 Definition of risks

The Group's business activities are exposed to a range of financial risks that could affect its financial position, profit for the year and cash flows because of their impact on its transactions in financial instruments. The main categories of risks to which the Group is exposed are summarised below:

a) credit risk;
b) liquidity risk;
c) market risk (exchange rate risk, interest rate risk and other price risks).

The extent of the Group's exposure to each category of financial risks identified is analysed below.

Credit risk

The credit risk represents the risk of suffering a financial loss because of failure by third parties to fulfil a payment obligation.
The Group has several concentrations of receivables due to the nature of the activities carried out by each operating company and on their client base. The risk is mitigated by the fact that credit exposure is spread across a large number of debtors. For instance, receivables are less concentrated in the nursing home sector where more than half of revenue comes from the residents of the nursing homes and the reported receivables from public sector bodies (mainly ASLs and municipalities) are due from many different entities. In contrast, receivables are more highly concentrated in the hospital management segment as almost all revenue is generated by a smaller number of client entities.
Credit risk monitoring is performed based on the type of debtor, the age of the receivable, any past history of financial problems or disputes and the presence of any ongoing legal or insolvency proceedings.
The Group normally creates an allowance for impairment that represents a broad estimate of losses on receivables based on an analysis and assessment of each individual balance.

Liquidity risk

The liquidity risk, or funding risk, is the risk that the Group might have difficulty in raising – at reasonable conditions – the funds needed to fulfil its commitments under financial instruments.

The liquidity risk to which the Group is exposed arises in relation to its obtaining loans to fund operating activities in a timely manner or in relation to failure to respect the covenants imposed by certain loans arranged by the Group leading to the lending institutions having the right to demand early repayment of the loans. Cash flow, the funding requirements and the liquidity of Group companies are centrally monitored or managed by the Finance Department with the aim of ensuring that financial resources are effectively and efficiently managed.
The three main factors that are essential to determining the Group liquidity situation are:

- cash generated or absorbed by operating and investing activities;

- maturity and renewal terms of debt or liquidity of financial assets, as well as market conditions;
- investment and development activities of parent company KOS S.p.A.

The Finance Department has adopted a series of policies and procedures aimed at optimising management of financial resources, thus reducing the liquidity risk:

- constant monitoring of forecast cash requirements so that any action necessary can be taken in good time (arrange additional lines of credit, share capital increases, etc.).
- arrangement of adequate lines of credit;
- optimisation of liquidity, using cash pooling where feasible;
- correct composition of net financial debt given capex made;
- regular, centralised control of collection and payment flows;
- maintenance of an adequate level of available liquidity;
- diversification of means and sources for use in raising financial resources;
- regular monitoring of future liquidity in relation to the business planning process;
- regular control of compliance with covenants imposed by loans received.

Management believes that existing funds and lines of credit, in addition to cash generated by operating activities and borrowing, will enable the Group to meet its requirements in terms of investments, working capital management and repayment of loans at maturity.

Market risk

Exchange rate risk

Since 2011, the Group has begun – albeit to a marginal extent – to operate on international markets thus exposing it to the exchange rate risk.
As well as seeking to structure natural hedging between receivables and payables, the Group has entered into contracts to hedge the exchange rate risk relating to a number of financial transactions and some commercial transactions.

Interest rate risk

The interest rate risk regards the risk that the value of a financial instrument and/or the related cash flows might change due to fluctuation of market interest rates.

Exposure to the interest rate risk results from the need to finance operating activities, both on a day to day basis and in relation to the acquisition of businesses while also employing available liquid resources. Interest rate fluctuations may have a negative or positive impact on the income of the Group and might indirectly affect the costs and performance of borrowing and investment operations.
The Group periodically assesses its exposure to the interest rate risk and manages the risk using financial derivative instruments in accordance with the established risk management policies. Under these policies, financial derivative instruments are solely used to the manage exposure to interest rate fluctuations correlated with future cash flows; speculative activities are neither envisaged nor allowed.
The only instruments used for this purpose are interest rate swaps (IRS), caps and collars.
In relation to some of its loans, the Group uses financial derivative instruments for cash flow hedge purposes with the aim of pre-determining interest payable on loans in order to obtain an ideal pre-defined floating and fixed rate mix for its borrowings.
The other parties to these contracts are leading financial institutions.
Derivatives are recognised at fair value.

Other price risks

Other price risks include the risk that the value of a security might vary due to fluctuation in market prices because of factors specific to the individual security or its issuer or because of factors affecting all securities traded on the market.
The Group does not have any significant exposure in securities traded on active markets so its exposure to this

type of risk is negligible.

3.2 Financial instruments in terms of IAS 39: classes of risk and fair value

The following tables show the different valuation methods for each class of financial instruments at 31 December 2017 and 31 December 2016.

(eur/000)						Other data		
Categories of financial assets and liabilities at 31 December 2017	31.12.17	Loans and Receivables	Held to-maturity investments	Assets held for sale	Liabilities at amortised cost	Fair value	Effect on profit or loss + REVENUES - COSTS	Effect on equity + POSITIVE - NEGATIVE
NON CURRENT ASSETS								
Other investments *	2,669	-	-	2,669	-	2,669	-	-
Other receivables (excluding tax assets)	825	825	-	-	-	825	-	-
Securities assets	-	-	-	-	-	-	-	-
CURRENT ASSETS								
Receivables from parent company	1,392	1,392				1,392		
Trade receivables	96,725	96,725	-	-	-	96,725	(1,503)	-
Other assets (excluding tax assets)	7,472	7,472	-	-	-	7,472	-	-
Financial assets (derivatives)	17,049		-	-	-	17,049	269	-
Securities	352	-	-	-	-	-	-	-
Financial assets held for sale	-	-	-	-	-	-	-	-
Financial assets held for sale	32,820	32,820	-	-	-	32,820	2	-
NON CURRENT LIABILITIES								
Bond loans	(98,308)				(98,308)	(98,308)		
Other financial liabilities	(164,799)	-	-	-	(164,799)	(164,799)	(8,743)	-
Non current trade payables		-	-	-	-	-	-	-
CURRENT LIABILITIES								
Bank overdrafts	(3,330)	-	-	-	(3,330)	(3,330)	(65)	-
Bond loans	(675)				(675)	(675)		
Payables to parent company	(5,869)				(5,869)	(5,869)		
Other liabilities	(20,254)	-	-	-	(20,254)	(20,254)	(532)	(106)
Trade payables	(69,301)	-	-	-	(69,301)	(69,301)	-	-

* Fair value not available so cost has been used

(eur/000)						Other data		
Categories of financial assets and liabilities at 31 December 2016	31.12.16	Loans and Receivables	Investments held to maturity	Assets held for sale	Liabilities at amortised cost	Fair value	Effect on profit or loss + REVENUES - COSTS	Effect on equity + POSITIVE - NEGATIVE
NON CURRENT ASSETS								
Other equity investments *	2,733	-	-	2,733	-	2,733	-	-
Other receivables (excluding tax receivables)	161	161	-	-	-	161	-	-
Securities assets	-	-	-	-	-	-	-	-
CURRENT ASSETS								
Receivables from parent company	1,522	1,522				1,522		
Trade receivables	87,518	87,518	-	-	-	87,518	(2,508)	-
Other assets (excluding tax assets)	8,323	8,323	-	-	-	8,323	-	-
Financial assets (derivatives)	9,814		-	-	-	9,814	881	-
Securities	-	-	-	-	-	-	-	-
Financial assets held for sale	-	-	-	-	-	-	-	-
Financial assets held for sale	38,131	38,131	-	-	-	38,131	6	-
NON CURRENT LIABILITIES								
Other financial debt	(209,288)	-	-	-	(209,288)	(209,288)	(8,264)	-
Non current trade payables		-	-	-	-	-	-	-
CURRENT LIABILITIES								
Bank overdrafts	(1,727)	-	-	-	(1,727)	(1,727)	(50)	-
Payables to parent company	(8,663)				(8,663)	(8,663)		
Other financial liabilities	(50,545)	-	-	-	(50,545)	(50,545)	(893)	(114)
Trade payables	(67,166)	-	-	-	(67,166)	(67,166)	-	-

* Fair value not available so cost has been used

The following table show, for 2017 and 2016, respectively, the classes of financial instruments based on their different levels of exposure to financial risks:

Classes of risk FY 2017	(eur/000)	Liquidity risk	Interest rate risk	Market risk	Credit risk
NON CURRENT ASSETS					
Other equity investments		-	-	2,669	-
Other assets (excluding tax assets)		-	-		825
CURRENT ASSETS					
Receivables from parent company		-	-	-	1,392
Trade receivables		-	-	-	96,725
Other assets (excluding tax assets)		-	-	-	7,472
Financial assets (derivatives)		-	-	-	17,049
Cash and cash equivalents		-	-	-	32,820
NON CURRENT ASSETS					
Bond loans		(98,308)			
Other financial liabilities		(164,799)	-	-	-
CURRENT LIABILITIES					
Bank overdrafts		(3,330)	-	-	-
Bond loans		(675)			
Payables to parent company		(5,869)	-	-	-
Other financial liabilities		(20,254)	-	-	-
Trade payables		(69,301)	-	-	-

Classes of risk FY 2016	(eur/000)	Liquidity risk	Interest rate risk	Market risk	Credit risk
NON CURRENT ASSETS					
Other equity investments		-	-	2,733	-
Other assets (excluding tax assets)		-	-		161
CURRENT ASSETS					
Receivables from parent company		-	-	-	1,522
Trade receivables		-	-	-	87,518
Other assets (excluding tax assets)		-	-	-	8,323
Financial assets (derivatives)		-	-	-	9,814
Cash and cash equivalents		-	-	-	38,131
NON CURRENT ASSETS					
Other financial liabilities		(209,288)	-	-	-
CURRENT LIABILITIES					
Bank overdrafts		(1,727)	-	-	-
Payables to parent company		(8,663)	-	-	-
Other financial liabilities		(50,545)	-	-	-
Trade payables		(67,166)	-	-	-

Cash and cash equivalents consist mainly of immediately accessible bank account balances.
These balances, together with financial assets for derivatives– albeit stated at "fair value" and not at amortised cost – are subject to a fairly low level of financial risk which is limited to credit risk.
This is due to the high standing of the banks used. The banks have excellent ratings and the Group often also has debt with these banks in the form of loans and/or advances.

Most trade receivables are due from public sector healthcare bodies and, as a result, present low credit risk.

The remaining trade receivables are the result of a carefully structured client selection and receivable recognition process followed by monitoring of the receivables. In the past, the Group has not had any significant bad debt problems with a notable effect on its results or financial position.

Trade payables are subject to the risk that the Group might be unable to meet promptly the payment commitments taken on (liquidity risk).

Financial liabilities, including financial liabilities re derivative instruments – albeit stated at "fair value" and not at amortised cost – are subject to the same type of risk as trade payables but the level of risk takes account of the likely lesser room for bargaining with the financial institutions and the stricter application of covenants and the usual obligations in relation to medium/long term financial liabilities.

IFRS 7 requires that financial instruments stated at fair value in the financial statements be classified based on a hierarchy with three levels that reflect the level of input used in determining the fair value. The following levels must be shown:

- level 1 – quoted prices on an active market for the asset or liability being measured;
- level 2 – input other than the quoted prices per level 1 that may be observed directly (prices) or indirectly (derived from prices) on the market;
- level 3 – inputs not based on observable market data.

The following table shows assets and liabilities measured at fair value at 31 December 2017 and 31 December 2016, by hierarchical level of fair value measurement.

Financial Statements at 31 December 2017				
IFRS 7 - Financial Instruments - Supplementary Disclosures	Level 1	Level 2	Level 3	Total
(eur/'000)				
CURRENT ASSETS				
Financial assets at fair value through profit or loss				
Financial assets				
- derivatives		13		13
- Non-recours factoring		17,036		17,036
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss				
Other financial liabilities				
- derivatives		(583)		(583)
Financial liabilities at fair value through profit or loss				
Other financial liabilities				
- derivatives		(134)		(134)
Total other financial liabilities	-	(134)	-	(134)

Financial Statements at 31 December 2016				
IFRS 7 - Financial Instruments - Supplementary Disclosures	Level 1	Level 2	Level 3	Total
(eur/000)				
CURRENT ASSETS				
Financial assets at fair value through profit or loss				
Financial assets				
- derivatives		26		26
- Non-recours factoring		9,788		9,788
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss				
Other financial liabilities				
- derivatives		(566)		(566)
Financial liabilities at fair value through profit or loss				
Other financial liabilities				
- derivatives		(501)		(501)
Total other financial liabilities	-	(501)	-	(501)

During 2017, there were no transfers from Level 3 to other Levels and vice versa.

Note the following with regard to the measurement assumptions applied to the asset classes:

- due to their short term maturity, for current assets and current liabilities –e.g. trade receivables and trade payables – and for current financial liabilities and sundry liabilities - excluding financial assets for derivatives - gross carrying amount was considered a reasonable approximation of fair value;
- in order to hedge the interest rate risk and the exchange rate risk, KOS Group has entered into *IRS-Interest Rate Swap, Collars and Interest Rate Cap contracts*. The fair value of the derivatives has been calculated by discounting the future expected cash flows based on the terms and expiry date of each derivative contract and the relevant underlying and using the market interest rate curve as at the reporting date. The reasonableness of the valuation obtained has been verified through a comparison with prices provided by the issuer;
- the fair value of non-current assets and non-current financial liabilities has been estimated by discounting the future expected cash flows based on the terms and expiry dates of each contract and principal and interest, quantified based on the interest rate curve at the reporting date;
- the interest rates used to quantify the amount due and discount forecast cash flows were based on the curve of Euribor rates at the reporting date, as provided by Bloomberg, plus a spread adjusted based on terms of the contracts (spread not considered when applying the same curve for discounting purposes).

3.3 Supplementary disclosures on financial assets

During the year, no changes had to be made to the accounting method applied to financial assets (not recognising for this purpose, as per international accounting standards, the initial recording at fair value and the subsequent reporting of certain items at cost).
On occasion, the Group factors some receivables on a recourse basis in return for cash advances; it also has two non-recourse factoring agreements.
Receivables are adjusted for impairment. This process is performed by creating a specific allowance that is deducted directly from the impaired financial assets.
In the year ended 31 December 2017 and in the previous year, the allowance was only recognised in relation to public sector and private sector trade receivables as it was not deemed necessary for the other financial assets
.

Changes in the allowance for impairment during the year are shown below:

(eur/000)	31/12/2016	Increase	Utilization	Changes in consolidation scope	Other changes	Differences in exchange rates	31/12/2017
Allowance for impairment	21,205	2,085	(1,325)	1,842	406	(7)	24,206

The gross carrying amount of financial assets represents the Group's maximum exposure to credit risk.
The following table contains a detailed analysis of current and non-current trade receivables and other assets, showing those due from the public and private sector entities.

31/12/2017

31/12/2017	Total receivables	Not yet due	Overdue>	0 - 30 days	30 - 60 days	60 - 90 days	90 - 180	180 - 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years
Non current assets													
Trade receivables	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Gross balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Allowance for impairment													
Other assets	**3,126**	**3,126**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Gross balance	3,126	3,126	0	0	0	0	0	0	0	0	0	0	0
Allowance for impairment	0	0	0	0	0	0	0	0	0	0	0	0	0
Current assets													
Private sector receivables	**25,619**	**14,535**	**11,084**	**3,183**	**2,005**	**1,808**	**3,452**	**66**	**323**	**138**	**26**	**22**	**61**
Gross balance	31,243	14,974	16,269	3,183	2,005	1,808	3,766	955	1,619	777	412	313	1,431
Allowance for impairment	-5,624	-439	-5,185	0	0	0	-314	-889	-1,296	-639	-386	-291	-1,370
Public sector trade receivables	**71,105**	**43,545**	**27,560**	**5,492**	**1,527**	**1,186**	**2,257**	**8,097**	**6,840**	**1,835**	**71**	**92**	**163**
Gross balance	89,687	44,644	45,043	7,665	1,548	1,264	2,646	8,949	8,139	5,269	2,216	1,726	5,621
Allowance for impairment	-18,582	-1,099	-17,483	-2,173	-21	-78	-389	-852	-1,299	-3,434	-2,145	-1,634	-5,458
Other assets	**9,936**	**9,936**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Gross balance	9,936	9,936	0	0	0	0	0	0	0	0	0	0	0
Allowance for impairment	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**109,786**	**71,142**	**38,644**	**8,675**	**3,532**	**2,994**	**5,709**	**8,163**	**7,163**	**1,973**	**97**	**114**	**224**

31/12/2016

31/12/2016	Total receivables	Not yet due	Overdue>	0 - 30 days	30 - 60 days	60 - 90 days	90 - 180	180 - 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years
Non current assets													
Trade receivables	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Gross balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Allowance for impairment													
Other assets	**531**	**531**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Gross balance	531	531	0	0	0	0	0	0	0	0	0	0	0
Allowance for impairment	0	0	0	0	0	0	0	0	0	0	0	0	0
Current assets													
Private sector receivables	**17,932**	**8,548**	**9,384**	**2,479**	**1,719**	**976**	**3,103**	**1,384**	**-387**	**28**	**21**	**11**	**50**
Gross balance	23,100	9,802	13,298	2,484	1,719	976	3,103	1,488	485	1,111	340	262	1,330
Allowance for impairment	-5,168	-1,254	-3,914	-5	0	0	0	-104	-872	-1,083	-319	-251	-1,280
Public sector trade receivables	**69,586**	**38,440**	**31,146**	**2,171**	**1,553**	**1,561**	**4,381**	**12,301**	**6,126**	**2,046**	**228**	**617**	**162**
Gross balance	85,623	39,049	46,574	2,569	1,573	1,596	4,664	12,567	8,642	5,955	2,204	2,119	4,685
Allowance for impairment	-16,037	-609	-15,428	-398	-20	-35	-283	-266	-2,516	-3,909	-1,976	-1,502	-4,523
Other assets	**12,359**	**12,359**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Gross balance	12,359	12,359	0	0	0	0	0	0	0	0	0	0	0
Allowance for impairment	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**100,408**	**59,878**	**40,530**	**4,650**	**3,272**	**2,537**	**7,484**	**13,685**	**5,739**	**2,074**	**249**	**628**	**212**

3.4 Supplementary disclosures on financial liabilities

The following tables show the contractual maturity dates of financial liabilities, including interest payable, for 2017 and 2016, respectively:

31.12.2017	<1 year	>1 <2 years	>2 <3 years	>3 <4 years	>4 <5 years	>5 years	Total	Total carrying amount
Principal + interest								
Non-derivative financial liabilities								
Bond loan	3,225	3,225	3,225	3,225	3,225	102,225	**118,350**	**98,983**
Other financial liabilities:	28,060	30,344	33,999	30,622	40,868	41,929	**205,822**	**187,362**
- Bank loans and borrowing	16,491	18,916	23,890	20,576	29,719	15,899	**125,490**	**110,454**
- Bond								
- Parent companies	0	0	0	0	0	0	**0**	**0**
- Subsidiaries	0	0	0	0	0	0	**0**	**0**
- Associate	0	0	0	0	0	0	**0**	**0**
- Finance lease companies	11,378	11,237	9,918	9,856	10,959	25,649	**78,998**	**75,574**
- Other lenders	191	191	191	191	191	381	**1,336**	**1,334**
Bank overdrafts	3,417	0	0	0	0	0	**3,417**	**3,330**
Trade payables	63,301	0	0	0	0	0	**63,301**	**63,302**
Derivative financial liabilities								
Hedging derivatives	1,298	0	0	0	0	0	**1,298**	**718**
Non-hedging derivatives	0	0	0	0	0	0	**0**	
Total	**96,076**	**30,344**	**33,999**	**30,622**	**40,868**	**41,929**	**273,838**	**254,711**

31.12.2016	<1 year	>1 <2 years	>2 <3 years	>3 <4 years	>4 <5 years	>5 years	Total	Total carrying amount
Principal + interest								
Non-derivative financial liabilities								
Bond loan	0	0	0	0	0	0	**0**	
Other financial liabilities:	58,884	53,730	62,805	24,778	22,182	60,077	**282,455**	**258,739**
- Bank loans and borrowing	46,183	40,924	50,263	13,470	10,874	11,758	**173,472**	**161,418**
- Parent companies	0	0	0	0	0	0	**0**	**0**
- Subsidiaries	0	0	0	0	0	0	**0**	**0**
- Associate	0	0	0	0	0	0	**0**	**0**
- Finance lease companies	12,511	12,615	12,351	11,117	11,117	47,747	**107,458**	**95,700**
- Other lenders	191	191	191	191	191	572	**1,527**	**1,621**
Bank overdrafts	1,796	0	0	0	0	0	**1,796**	**1,727**
Trade payables	67,165	0	0	0	0	0	**67,165**	**67,166**
Derivative financial liabilities								
Hedge derivatives	1,927	0	0	0	0	0	**1,927**	**1,094**
Non-hedging derivatives	0	0	0	0	0	0	**0**	
Total	**129,772**	**53,730**	**62,805**	**24,778**	**22,182**	**60,077**	**353,343**	**328,726**

Other financial liabilities, amounting to € 187,362 thousand (including € 20,254 thousand classified as current liabilities), consist of loans and finance lease liabilities due to banks (€186,028) and derivative financial liabilities (€ 1,334 thousand). Moreover, as already described, in 2017, KOS SpA issued two bond loans for a total amount of € 99 million.

The following should be noted in order to understand better the above tables:

- where the creditor may choose when to settle a liability, the liability is included in the earliest possible period;
- the amounts reported relate to contract cash flows, are not discounted and are gross of any foreseen interest;
- the amount of floating rate borrowings has been estimated based on the expected interest rate curve at the reporting date.

The loan contracts reported above include, in some cases, the customary arrangements providing for the termination of the credit period upon failure to respect certain covenants should the company fail to remedy the breach of the said covenants, in the terms and manner required by the loan agreements.

So far the Group has not issued instruments including a debt component and an equity component and it has never found itself in default of clauses regarding the principal amount, interest, amortisation plan or repayments of borrowings.
Further information is provided in the following paragraph.

3.5 Loans and related covenants

The Group's capital management objectives are intended to safeguard its ability to continue to generate profit and respect covenants while also maintaining the ideal capital structure.

The main financial and lease liabilities at 31 December 2017 may be summarised as follows:

Debtor	Type of loan	Residual amount as at 31.12.2017	Maturity	Term
KOS Care Srl	mortgage loan Banca delle Marche	1,251	30.06.2025	Euribor 1 month/360
KOS Care Srl	mortgage loan Banca delle Marche	3,748	30.06.2025	Euribor 1 month/365
KOS Care Srl	mortgage loan Banca delle Marche	3,181	30.06.2025	Euribor 3 months/360
Abitare il Tempo Srl	mortgage loan Banca delle Marche	399	31.04.2025	Euribor 6 months/365
Abitare il Tempo Srl	mortgage loan Banca delle Marche	135	31.04.2025	Euribor 6 months/365
KOS Care Srl	mortgage loan BPO	417	31.12.2021	Euribor 6 months/365
Sanatrix Gestione S.r.l	mortgage loan Banca delle Marche	577	31.07.2021	Euribor 3 months/360
KOS S.p.A.	mortgage loan Banco di Brescia - Riva Ligure	1,934	30.09.2023	Euribor 6 months/365
KOS S.p.A.	mortgage loan Banco di Brescia - Sanremo	1,564	30.09.2023	Euribor 6 months/365
Hss Real Estate S.p.a	mortgage loan GE	3,150	30.06.2021	Euribor 3 months/360
KOS Care Srl	mortgage loan BPO	1,037	31.03.2025	Euribor 6 months/365
KOS Care Srl	mortgage loan Delleani	11,000	31.10.2024	Euribor 3 months/360
Sanatrix Gestione S.r.l	Loan BDM	2,542	31.01.2023	Euribor 6 months/360
KOS Care Srl	Leasign Padiglione F	6,779	30.11.2026	Euribor 3 months/365
KOS Care Srl	Leasing Monza	7,486	30.09.2029	Euribor 3 months/365
KOS Care Srl	Leasing Foligno	3,940	01.04.2033	Euribor 3 months/360
KOS Care Srl	Leasing Montecosaro	4,342	01.11.2026	Euribor 3 months/365
KOS Care Srl	Leasing Foligno	5,349	01.04.2033	Euribor 3 months/365
KOS Care Srl	Leasing Ascoli	5,592	30.06.2025	Euribor 3 months/360
KOS Care Srl	Loan Villa Azzurra	4,750	30.09.2022	Euribor 3 months/360
KOS Care Srl	Loan Tonengo	3,214	31.12.2022	Euribor 3 months/360
KOS Care Srl	Leasing Arco e Villa Adria	4,579	30.06.2025	Euribor 3 months/365
Polo Geriatrico Riabiltiativo	Leasing Polo Geriatrico Riabilitativo	12,243	29.03.2022	Euribor 3 months/365
KOS Care Srl	mortgage loan	228	29.05.2023	Euribor 6 months/360
KOS Care Srl	mortgage loan	692	30.10.2020	Euribor 3 months/360
Total loans with collateral and/or liens		**90,129**		
Ospedale di Suzzara S.p.A	Loan BPS	2,320	31.12.2018	Euribor 3 months/360
Ecomedica Spa - Medipass Group	Loan	83	31.07.2018	Euribor 1 month360
Ecomedica Spa - Medipass Group	Loan	181	30.09.2019	Euribor 1 month360
Ecomedica Spa - Medipass Group	Loan	112	30.04.2019	Euribor 1 month360
Ecomedica Spa - Medipass Group	Loan	100	31.07.2018	Euribor 1 month360
Medipass Healthcare - Medipass Group	Loan UK	826	01.10.2027	
ClearMedi Health Care - Medipass Group	Loan India	18,591		Base rate
Loans not secured by collateral		**22,213**		
KOS S.p.A.	Syndicated corporate line	20,000	25.07.2022	Euribor 6 months/360
	Ing Natixis syndicated corporate line	26,000	06.04.2022	Euribor 6 months/360
Total Corporate line		**46,000**		
KOS S.p.A.	Bond Loan	35,000	18.10.2025	Fix
	Bond Loan	64,000	18.10.2024	Fix
Total Bond		**99,000**		
Operating asset leases		25,359		
Total finance lease liabilities		**25,359**		
KOS Care Srl	Regional loan (FRISL) Lombardy	1,334		
Total other lenders		**1,334**		
Total bank overdrafts		**3,330**		
Financial liabilities for derivatives		**718**		
Total financial liabilities		**288,084**		

Some of the Group's loan agreements contain specific clauses that entitle the lending banks to render the loans subject to immediate repayment upon failure to respect certain covenants unless the company takes action to remedy the breach of the covenants on the terms and in the manner required by the loan agreements.

The covenants applicable for the financial years 2017-2021 are shown below:

(eur/'000)	Type of loan	Residual amount at 31.12.2017	Maturity	Base for covenants	Target covenants 31.12.2017 and other		
					(NFD-RE DEBT)/(EBITDA-6,5%RE DEBT)	Ebitda/Of	Loan to value
Kos S.p.A	Syndicated loan from Mediobanca, BNL, Intesa, Unicredit, Banco Popolare di Milano, Credit Agricole, Société Générale *- Line A* *- Line B* *- Line Revolving*	 1,000 19,000	 25/07/2022 25/07/2022	KOS Group	<=3,5	>=3	< 60%
Kos S.p.A	Syndicated loan (ING, Natixis)	26,000	06/04/2022	KOS Group	<=3,5	>=3	< 60%
Kos S.p.A	Bond 64ML€ Bond 35ML€	64,000 35,000	18/10/2024 18/10/2025	KOS Group	<=3,5	>=3	< 60%
Kos S.p.A	BEI loan	-	29/06/2025	KOS Group	<=3,5	>=3	< 60%
Kos Care	Loan ICREA Mortgage Villa Azzurra Mortgage GE Tonengo D'Asti	4,579 4,750 3,214	30/06/2025 '30/09/2022 18/12/2022	KOS Group	<=3,5 <=3,5 <=3,5		

Legenda
Nfp: Net financial position
RE Debt: Real estate debt
EBITDA: Earning before income, taxes and depreciation
OF: Net financial expenses
Loan to Value: Real estate loan / Net tangible fixed assets

(eur/'000)	Type of loan	Residual amount at 31.12.2017	Maturity	Base for covenants	Target covenants 31.12.2017 (INR)	
					TNW	Gearing
Clearmedi	HSBC loans		01/04/2019	Statutory Clearmedi local gaap	>110ML	<11

The table below shows actual figures for 2017:

(eur/'000)	Type of loan	Residual amount at 31.12.2017	Maturity	Base for covenants	Target covenants 31.12.2017 and other		
					(NFD-RE DEBT)/(EBITDA-6,5%RE DEBT)	Ebitda/Of	Loan to value
Kos S.p.A	Syndicated loan from Mediobanca, BNL, Intesa, Unicredit, Banco Popolare di Milano, Credit Agricole, Société Générale *- Line A* *- Line B* *- Line Revolving*	 1,000 19,000	 25/07/2022 25/07/2022	KOS Group	1.79	7.65	45%
Kos S.p.A	Syndicated loan (ING, Natixis)	26,000	06/04/2022	KOS Group	1.79	7.65	45%
Kos S.p.A	Bond 64ML€ Bond 35ML€	64,000 35,000	18/10/2024 18/10/2025	KOS Group	1.79	7.65	45%
Kos S.p.A	BEI loan	-	29/06/2025	KOS Group	1.79	7.65	45%
Kos Care	ICREA loan Villa Azzurra mortgage loan GE Tonengo D'Asti mortgage loan	4,579 4,750 3,214	30/06/2025 30/09/2022 18/12/2022	KOS Group	1.79		

(eur/'000)	Type of loan	Residual amount at 31.12.2017	Maturity	Base for covenants	Target covenants 31.12.2017 (INR)	
					TNW	Gearing
Clearmedi	HSBC loans		01/04/2019	Statutory Clearmedi local gaap	288	7

At 31 December 2017, there were no covenant breaches with effects on the Group.

Some of the loan agreements also include "*negative pledge*", "*pari passu"* and *"change of control*" clauses plus limitations on dividend distribution. At the date of preparation of these notes, none of the said clauses was being breached.

Finally, with regard to additional guarantees in place, reference should be made to the note "Debt and financial liabilities".

The following table shows the main lines of credit, as divided based on their availability at 31 December 2017:

	31/12/2017			31/12/2016		
(eur/million)	Total	Utilized	Available	Total	Utilized	Available
Short-term Lines ("Uncommitted"/at sight)	56.6	3.3	53.3	55.3	1.7	53.6
Long-term ("Committed"/contractualized)	434.9	283.3	151.6	282.1	258.7	23.4
Total	491.5	286.6	204.9	337.5	260.4	77.0

3.6 Accounting for hedging transactions

Hedging contracts in place

In order to hedge the interest rate risk, KOS Group has entered into *IRS - Interest Rate Swap*, *Collar* and *Interest Rate Cap agreements*. Details of such instruments at 31 December 2017 are provided below:

Company	Enter date	Time	*Pay*	*Cap*	*Floor*	*Receive/Index*	Notional 31/12/17	Notional 31/12/16	*Fair Value* 31/12/17	*Fair Value* 31/12/16
Kos Care Srl	2013	Quarterly	1.740%			Euribor 3M	6,805	7,132	(292)	(371)
Kos Care Srl	2015	Quarterly	0.150%			Euribor 3M	3,214	3,857	(15)	(22)
Kos Care Srl	2014	Quarterly	0.298%			Euribor 3M	4,750	5,750	(35)	(52)
Kos Care Srl	2015	Quarterly	0.220%			Euribor 3M	3,573	3,684	(21)	(33)
Kos Care Srl	2015	Quarterly	0.206%			Euribor 3M	4,850	4,999	(27)	(42)
Kos Care Srl	2015	Quarterly	0.390%			Euribor 3M	4,579	5,211	(43)	(65)
Kos SpA	2017	Half-year	0.385%			Euribor 6M	13,000	-	(78)	-
Kos SpA	2017	Half-year	0.370%			Euribor 6M	13,000	-	(72)	-
Total Interest Rate Swap							**53,771**	**30,633**	**(583)**	**(585)**
Medipass Srl	2010	Quarterly		4.00%	1.00%	Euribor 3M	-	1,000	-	(3)
Total Collar							**-**	**1,000**	**-**	**(3)**
Medipass Srl	2011	Quarterly		3.25%		Euribor 3M	111	586	-	-
Kos Care Srl	2010	Monthly		4.00%		Monthly avarage Euribor 1M	-	4,141	-	-
Kos Care Srl	2010	Monthly		4.00%		Monthly avarage Euribor 1M	-	1,382	-	-
Kos Care Srl	2014 FWD Start 2017	Monthly		1.50%		Monthly avarage Euribor 1M	3,748	-	6	11
Kos Care Srl	2014 FWD Start 2016	Monthly		1.50%		Monthly avarage Euribor 1M	3,181	3,514	2	5
Kos Care Srl	2014 FWD Start 2016	Monthly		1.50%		Euribor 3 M	3,948	4,261	3	6
Total Interest Rate Cap							**10,988**	**13,884**	**11**	**22**
Derivative instruments effective							**64,759**	**45,517**	**(572)**	**(566)**
Sanatrix Gestioni Srl	Cap - 2013	Monthly		2.50%		Euribor 6M	2,542	2,988	-	4
HSS Real Estate Srl	IRS - 2013	Quarterly	2.04%			Euribor 3M	3,150	4,050	(133)	(220)
Polo Geriatrico di Riabilitazione SpA	2010	Quarterly	2.680%			Euribor 3M	-	12,639	-	(285)
Ecomedica Srl	2013	Monthly	0.900%			Euribor 1M	83	-	-	-
Ecomedica Srl	2015	Monthly	0.200%			Euribor 1M	181	-	(1)	-
Ecomedica Srl	2016	Monthly	-0.180%			Euribor 1M	112	-	-	-
Derivative instruments not effective							**6,068**	**19,677**	**(134)**	**(501)**
Total							**70,827**	**65,194**	**(706)**	**(1,067)**

The total notional amount at 31 December 2017 was € 70,827 thousand. Overall, some 38% of the Group's total floating rate medium/long term debt (i.e. excluding debt for advances on invoices, current account overdrafts and other borrowings to fund working capital) at 31 December 2017 was hedged. This means that there is no over-hedging with regard to future cash outflows being hedged.

The aim of interest rate hedges is to fix the cost relating to the floating rate long term loan agreements being hedged by entering into a related derivative contract that allows the floating rate interest to be collected in return for payment of interest at a fixed rate.

Derivatives that meet the hedge accounting requirements of IAS 39 (formal designation of a hedging relationship; documented, measurable and highly effective hedging relationship) are respected are accounted for on a cash flow hedge basis. This means that, when a hedge agreement is entered into, the related "fair value", regarding the effective portion only, is recognised under an equity reserve.

Subsequent changes in "fair value" resulting from movements in the interest rate curve – again only in relation to the effective portion of the hedge – are also recognised under an equity reserve.

The instruments for which all of the conditions laid down by IAS 39 are not respected in full are an IRS activated by HSS Real Estate S.r.l. in 2013, a monthly CAP activated by Sanatrix Gestioni S.r.l. and four IRS contracts which the Group took on after the acquisitions of Polo Geriatrico Riabilitativo S.p.A. and Ecomedica S.p.A.; these contracts proved ineffective immediately after the acquisition.

Subsequent changes in fair value (intrinsic portion) resulting from movements in the interest rate curve – again only in relation to the effective portion of the hedge – are also recognised under an equity reserve.

In 2017, with a view to the forthcoming bond issue (the issue took place on 18 October 2017), on 2 August 2017, KOS SpA signed a Pre Hedge contract, a swap with the following characteristics: trade date 2 August 2017, effective date 31 October 2017, termination date 31 October 2024, notional amount € 25 million, swap rate 0.6250%. The derivative was closed in mid-October at the same time as the bond issue. Its FV at closing date was € -150 thousand. As it was a hedging instrument, FV at the closing date was recognised in the cash flow hedge reserve and will be released to the income statement over the period of the related bond loan.

Also in August 2017, KOS Spa signed two Interest Rate Swap contracts with leading banks in order to cover the risk regarding drawdowns totalling €26 million made on the ING Natixis line of credit in 2017.
These two IRS contracts have the following characteristics: *start date* 31 December 2017, *termination date* 6 April 2022. IRS rate of 0.37% and 0,385%, respectively, against the Euribor 6 month rate. Both instruments are linked to the underlying loans and proved to be hedges at 31 December 2017. Consequently, their FV was recognised in the cash flow hedge reserve.
The table below shows the following information on derivatives:

- the notional amount at 31 December 2017 and 2016, as split between amounts due after less than and after more than 12 months based on contractual maturity dates;
- the statement of financial position amount representing the fair value of the contracts at the reporting date;
- the ineffective portion or the change in time value immediately recognised in the income statement under *Financial expenses and/or financial income*.

	31/12/17					
	Notional amount		FV of contracts (1)			
(eur/000)	within 12 months	after 12 months	positive	negative	P&L effect (2)	Equity reserve net of tax effect (3)
Interest rate risk management						
- Cash flow hedge pursuant to IAS 39 IRS	4,053	27,245		(716)	231	(556)
- Cash flow hedge pursuant to IAS 39 Collar	-	-			-	
- Cash flow hedge pursuant to IAS 39 Interest Rate Cap	1,670	37,859	11		(17)	
Total	**5,723**	**65,104**	**11**	**(716)**	**214**	**(556)**

	31/12/16					
	Notional amount		FV of contracts (1)			
(eur/000)	within 12 months	after 12 months	positive	negative	P&L effect (2)	Equity reserve net of tax effect (3)
Interest rate risk management						
- Cash flow hedge pursuant to IAS 39 IRS	16,401	30,921		(1,090)	156	(450)
- Cash flow hedge pursuant to IAS 39 Collar	1,000	-		(3)	150	(2)
- Cash flow hedge pursuant to IAS 39 Interest Rate Cap	7,202	9,670	26		169	-
Total	**24,603**	**40,591**	**26**	**(1,093)**	**475**	**(452)**

(1) Represents the value of (assets)/liabilities recognised in the statement of financial position due to the fair value measurement of derivative contracts.
(2) The ineffective portion for hedging purposes in terms of IAS 39 and the delta time value for Interest Rate Cap and Collar contracts.
(3) Represents the "intrinsic value" adjustment to derivative contracts gradually recognised in net equity as from the signing date ..

4.7 Sensitivity analysis

With regard to interest rate risk, a sensitivity analysis has been performed with the aim of quantifying, all other conditions remaining equal, the impact of any fluctuation in market interest rates on the Group's profit for the year and on equity.
When assessing the potential impact of a fluctuation in the interest rates applied, floating-rate financial instruments are analysed separately (the related impact is valued in terms of cash flow). Floating-rate financial instruments typically include cash and cash equivalents, loans to operating companies and to the parent company and payables for advances on notes receivable. The sensitivity analysis also considers the effect of hedging derivative instruments.

As interest rates were again very low in 2017 (even reaching negative levels), the Group decided to measure only the impact on the P&L and the statement of financial position of a positive fluctuation of + 1%.

A sudden, hypothetical fluctuation of "+1%" in short-term interest rates applicable to floating-rate financial assets and liabilities, net of the effect resulting from hedging instruments in place at 31 December 2017 would have had an impact on pre-tax profit of around -€ 2,545 thousand (-€ 1,761 thousand at 31 December 2016) with an effect on equity of around -€1,845 thousand (- € 1,277 thousand at 31 December 2016).

Notes to the Income Statement

4) Revenue

The Group's revenue for 2017 is analysed below. Prior year comparative figures are also shown together with the difference compared to prior year.

It should be noted that, after changes to the organisational structure in 2017, the functional rehabilitation, psychiatric rehabilitation and nursing home activities were included in the Long term care SBA. For comparative purposes, the figures relating to 2016 have been duly reclassified.

Revenue by operating segment

A breakdown of revenue by operating segment is provided in the table below:

(eur/000)	2017	%	2016	%	Var.
Long term care	398,656	81%	381,607	83%	17,049
Acute Care	36,774	7%	35,936	8%	838
Cancer treatment and diagnostic services	55,091	11%	43,509	9%	11,582
Other	38	0%	22	0%	16
Total	**490,559**	**100%**	**461,074**	**100%**	**29,469**

The increase in revenue is mainly due to:

- An increase in the Long term care segment compared to prior year thanks to acquisitions during the year: Psicogest S.r.l. (+€ 793 thousand), the business comprising the "Barbarano" nursing home (+€ 3,568 thousand), Laboratorio Salus S.r.l. (+€ 731 thousand), Villa Margherita S.r.l. (+€ 1,547 thousand) plus facilities acquired in 2016 that made a full year contribution in 2017 (Villa Jolanda S.r.l., impact of +€ 2,883 thousand), as well as a favourable mix of occupancy/average rates. These increase was partially offset by the negative effect of the sale of the Loveno nursing home in 2016 (€ 441 thousand);

- Revenue in the cancer treatment and diagnostics segment which increased by € 12,420 thousand compared to prior year, mainly thanks to new services launched during 2017 by Medipass S.r.l. and Clearmedi Healthcare Pvt Ltd as well as to the acquisition of Ecomedica S.p.A. which had a positive impact of € 4,082 thousand;

Revenue by type of client

Revenue by type of client are shown in the table below:

(eur/000)	2017	%	2016	%	Var.
Public	307,574	63%	296,428	64%	11,146
Private	182,985	37%	164,646	36%	18,339
Total	**490,559**	**100%**	**461,074**	**100%**	**29,485**

The split of revenue by type of client highlights the increasing contribution of private clients over public sector clients.

Revenue by Region

Revenue by region is shown in the table below:

(eur/000)	**2017**	**%**	**2016**	**%**	**Var.**
Lombardy	150,785	31%	152,024	33%	(1,239)
Trentino Alto Adige	8,328	2%	8,492	2%	(164)
Veneto	22,890	5%	22,436	5%	454
Piedmont	46,725	10%	43,856	10%	2,869
Liguria	19,898	4%	19,688	4%	210
Tuscany	9,141	2%	5,351	1%	3,790
Emilia Romagna	60,929	12%	57,202	12%	3,727
Marche	121,326	25%	104,967	23%	16,359
Abruzzo	3,099	1%	6,208	1%	(3,109)
Puglia	3,722	1%	4,864	1%	(1,142)
Lazio	19,533	4%	13,222	3%	6,311
Sicily	654	0%	3,898	1%	(3,244)
Other regions	6,686	1%	7,118	2%	(432)
Foreign countries	16,843	2%	11,748	2%	5,095
Total	**490,559**	**100%**	**461,074**	**100%**	**29,485**

The increase is due to the aforementioned acquisitions which mainly involved Marche and Lazio Regions. In terms of revenue from foreign countries, the increase is due to the greater number of services provided by the Group, especially in India.

5) Purchase of goods

In the year ended 31 December 2017, this item totalled € 35,454 thousand against € 31,536 thousand in 2016. These costs represented around 7.2% of revenue, slightly higher than in prior year (6.8%). The impact relating to new acquisitions was € 677 thousand

The total cost for the year ended 31 December 2017 is analysed in detail below and compared with prior year.

(eur/000)	**2017**	**%**	**2016**	**%**	**Var.**
Food and beverages	6,583	19%	5,481	17%	1,102
Medical gases	555	2%	513	2%	42
Diagnostics consumables	1,921	5%	302	1%	1,619
Medical consumables	4,936	14%	3,908	12%	1,028
Medicines	7,449	21%	6,954	22%	495
Prosthetic materials and medical devices	8,221	23%	8,769	28%	(548)
Laboratory consumables	1,477	4%	1,381	4%	96
Generic consumables	78	0%	43	0%	35
Cleaning material	1,045	3%	1,011	3%	34
Other	3,189	9%	3,174	10%	15
Total	**35,454**	**100%**	**31,536**	**100%**	**3,918**

6) Services

Costs for services totalled € 173,197 thousand for the year ended 31 December 2017 against € 168,029 thousand in 2016. The increase of €5,168 thousand compared to prior year is mainly due to acquisitions made during 2017 which had an impact of € 3,554 thousand.

The total cost for the year ended 31 December 2017 is analysed in detail below and compared with prior year.

(eur/000)	2017	%	2016	%	Var.
Legal, notarial and fiscal consulting	2,242	1%	1,460	1%	782
IT consulting	1,708	1%	1,349	1%	359
Technical consulting	2,988	2%	1,995	1%	993
Medical-nursing consulting	41,168	24%	37,993	23%	3,175
Fees to Directors	1,682	1%	1,610	1%	72
Fees to Statutory Auditors	170	0%	142	0%	28
Personnel services	225	0%	121	0%	104
Utilities	10,772	6%	10,944	7%	(172)
Maintenance and repairs	12,839	7%	13,203	8%	(364)
Insurance	2,360	1%	2,291	1%	69
Cleaning and surveillance	988	1%	722	0%	266
Subcontracting costs	37,661	22%	37,783	22%	(122)
Care and laboratory services	8,727	5%	8,978	5%	(251)
Catering services	2,229	1%	3,972	2%	(1,743)
Lease fees	1,678	1%	1,470	1%	208
Rents	29,897	17%	27,448	16%	2,449
Other services	15,863	9%	16,548	10%	(685)
Total	**173,197**	**100%**	**168,029**	**100%**	**5,168**

Rents consist of real estate rental costs including non-deductible VAT.

The following schedules, show the fees relating to 2017 for audit services and other services rendered by the independent auditor and other entities belonging to its network.

Schedule 1)

Fees (*) relating to 2017 for services provided by the independent auditor to KOS S.p.A.

Type of service	Provider	Recipient	Amount (€/000)
Audit	KPMG S.p.A.	KOS S.p.A.	43

Schedule 2)

Fees relating to 2017 for services rendered by the independent auditor to other Group companies.

Modificare “Subsidiaries companies” in “Subisidiaries”

Audit	KPMG S.p.A.	Subsidiaries companies	233

7) Personnel expense

Personnel expense for the year ended 31 December 2017 totalled € 181,999 thousand against € 167,410 thousand in 2016.

The increase compared to prior year is mainly due to acquisitions made and facilities opened in 2016 and 2017, in particular: Barbarano (€ 1,754 thousand), Villa Margherita S.r.l. (€ 751 thousand), Villa Jolanda S.r.l. (€ 1,564 thousand) and Ecomedica S.p.A. (€ 749 thousand). We also highlight the insourcing of several previously outsourced services which has led to an increase in personnel expense. As a percentage of revenue, personnel expense fell from 36.3% in 2016 to 35.3% in 2017. We also note the inclusion of the valuation of new stock option plans with an impact of € 385 thousand (€779 thousand in prior year).

The total personnel expense for the year ended 31 December 2017 is analysed in detail below and compared with prior year:

(eur/000)	2017	%	2016	%	Var.
Wages and salaries	132,732	73%	121,725	73%	11,007
Social security charges	36,036	20%	33,274	20%	2,762
Employee termination benefits	9,148	5%	8,436	5%	712
Stock option plan valuation	385	0%	779	0%	(394)
Other costs	3,698	2%	3,196	2%	502
Total	**181,999**	**100%**	**167,410**	**100%**	**14,589**

The table below shows the actual number of employees as at 31 December 2017 and 31 December 2016:

	31/12/17	31/12/16
Executives/Managers	27	25
White collar workers	3,835	3,031
Medical staff, carers and workers	2,559	2,504
Total	**6,421**	**5,560**
Employees - Average	**5,939**	**5,402**

We also note that subsidiary Ospedale di Suzzara S.p.A. uses personnel seconded from Azienda Ospedaliera Carlo Poma in the course of its business activities – the related cost (€ 965 thousand in 2017 and € 1,484 thousand in 2016) is recognised under services. As at 31 December 2017, there were 20 seconded workers against 25 at 31 December 2016.

8) Other operating income

Other operating income for the year ended 31 December 2017 totalled € 6,449 thousand, a slight decrease compared to € 6,703 thousand in 2016.

It may be analysed as follows:

(eur/000)	2017	%	2016	%	Var.
Ordinary prior year income	3,288	51%	2,988	45%	300
Gains on the sale of assets	1,024	16%	116	2%	908
Other revenue and income	2,137	33%	3,599	54%	(1,462)
Total	**6,449**	**100%**	**6,703**	**100%**	**(254)**

Ordinary prior year income includes the release of over-accruals made in the prior year. We note that "Gains on the sale of assets" include the gain on the sale of the Cardinal Ferrari facility building to the Spazio Sanità fund. In the prior year, an indemnity of € 1,234 thousand was recognised under "Other revenue and income" in relation to the settlement agreement reached between the PTC Veneto Consortium and Azienda ULSS 12 Veneziana.

9) Other operating costs

Other operating costs amounted to € 18,480 thousand in 2017 against € 18,205 thousand in 2016. This item mainly consists of non-deductible input VAT (€ 12,583 thousand in 2017 against € 12,469 thousand in 2016) and other taxes and duties. Ordinary prior year expense includes under-accruals made when preparing prior year financial statements.

(eur/000)	2017	%	2016	%	Var.
Taxes and duties	16,518	89%	15,801	87%	717
Ordinary prior year expense	894	5%	1,373	8%	(479)
Ordinary losses on disposal	29	0%	168	1%	(139)
Sundry operating costs	1,039	6%	863	5%	176
Total	**18,480**	**100%**	**18,205**	**100%**	**275**

10) Amortisation, depreciation, impairment losses and provisions

At 31 December 2017, this item amounted to € 34,032 thousand against € 33,780 thousand in 2016, as follows:

(eur/000)	2017	%	2016	%	Var.
Depreciation	27,938	82%	25,052	74%	2,886
Amortisation	884	3%	678	2%	206
Allowance for bad debts	2,085	6%	2,508	7%	(423)
Other provisions	2,318	7%	2,194	6%	124
Other impairment losses	807	2%	3,348	10%	(2,541)
Total	**34,032**	**100%**	**33,780**	**100%**	**252**

The increase is partly due to the aforementioned acquisitions and the new facilities opened during the year (effect of € 688 thousand) and to the new services of the Cancer Treatment and Diagnostics SBA (total effect of € 1,813 thousand).

We highlight the € 617 thousand impairment of goodwill relating to Medipass Leeds Ltd and Medipass Belfast Ltd (€660 thousand in 2016) and the impairment of other property, plant and equipment (€ 190 thousand). In prior year, impairment losses of € 1,138 thousand were made to goodwill in the Long Term Care segment together with impairment losses of € 1,550 thousand to other property, plant and equipment.

11) Financial income

Financial income amounted to € 1,183 thousand in 2017 against € 2,595 thousand in 2016, as shown below:

(eur/000)	2017	%	2016	%	Var.
Interest income on bank accounts	3	0%	6	0%	(3)
Interest income on derivatives	373	32%	881	34%	(508)
Interest income on arrears	422	36%	1,648	64%	(1,226)
Other financial income	385	33%	60	2%	325
Total	**1,183**	**100%**	**2,595**	**100%**	**(1,412)**

"Other financial income" includes exchange gains of € 92 thousand.

"Interest income on arrears" includes interest income accrued but not yet collected.

"Interest income on derivatives" includes the fair value adjustment of the year arising from the measurement of Interest rate swaps and collar agreements for hedging and the amount already collected by the companies party to derivative contracts.

Changes in dividends are shown below.

(eur/000)	2017	2016	Var.
Dividends	33	74	(41)

The dividends of € 33 thousand include the dividend paid by the Spazio Sanità real estate fund, in which a number of Group companies hold non-controlling interests.

12) Financial expenses

Financial expenses for the year totalled € 12,667 thousand compared to € 13,011 thousand in 2016, as shown below:

(eur/000)	2017	%	2016	%	Var.
Interest expense on bank accounts	90	1%	69	1%	21
Interest expense on derivatives	739	6%	1,238	10%	(499)
Interest expense on loans and borrowings	5,156	41%	4,769	37%	387
Interest expense on leases	2,361	19%	2,501	19%	(140)
Third party loans and borrowings	209	2%	123	1%	86
Exchange losses	113	1%	421	3%	(308)
Other financial expenses	3,999	32%	3,890	30%	109
Total	**12,667**	**100%**	**13,011**	**100%**	**(344)**

"Other financial expenses" include bank charges and commissions on loan transactions.

13) Adjustments to financial assets

"Adjustments to financial assets" include the impairment of several non-controlling investments. In prior year, they included impairment of €50 thousand on the investment in the PTC Veneto Consortium in relation to the settlement agreement reached with Azienda ULSS 12 Veneziana and other impairment losses totalling € 50 million on several non-controlling investments.

14) Income taxes

Income taxes amount to € 11,392 thousand, less than in 2016, as analysed below:

(eur/000)	2017	%	2016	%	Var.
Current taxes - IRES	10,245	90%	12,189	89%	(1,944)
Current taxes - IRAP	4,143	36%	3,758	28%	385
Deferred tax expense/(income)	(2,996)	-26%	(2,322)	-17%	(674)
Total	**11,392**	**100%**	**13,625**	**100%**	**(2,233)**

The effective rate of taxation in both years is shown below:

	2017	%	2016
Effective tax rate	**27%**		**36%**

Income taxes decreased as a percentage of the pre-tax profit from 36% in 2016 to 27% in 2017.

As certain personnel expenses and financial expenses are partially non-deductible for IRAP purposes, the IRAP charge makes a significant contribution towards increasing the effective consolidated tax rate over the theoretical rate which fell from 31.4% to 27.9% in 2017 because of legislative changes (IRES of 24% and IRAP of 3.9%). The change in the effective tax rate is due to the reduction in the IRES rate and to the effects of accelerated depreciation of capex in 2017.

The table below contains a reconciliation between the theoretical and effective tax rates per the financial statements and the corresponding theoretical and effective tax charges:

(eur/000)		2017	2016
Pre-tax profit in the financial statements		42,084	38,208
Theoretical tax rate (24% of the pre-tax profit)	**A**	**10,100**	**10,507**
Tax effect of non-deductible costs	b	(1,834)	208
Tax effect of prior year losses generating	b	(496)	
Tax effect of prior year losses not generating	b	(118)	
Tax effect of foreign operations	b	-	(43)
Non-taxable grants	b	-	-
Other	b	(403)	(805)
Total effect of addbacks and other - (b)	**B**	**(2,851)**	**(640)**
Income taxes	**A + B**	**7,249**	**9,867**
IRAP and other taxes	C	4,143	3,758
Total	**"A+B"+C**	**11,392**	**13,625**

Notes to the Statement of Financial Position

Non-Current Assets

15) Intangible assets

At 31 December 2017, net intangible assets amounted to € 276,680 thousand against € 233,204 thousand at 31 December 2016.

	Opening balance			Changes in the year									Closing balance		
	Historical cost	Impairment losses and accumulated amortisation	Carryng amount as at 31/12/2016	Purchases	Changes in consolidation scope		Exchange differences		Other changes	Net disposals		Impairment losses and amortisation	Historical cost	Impairment losses and accumulated amortisation	Carryng amount as at 31/12/2017
(eur/000)					Historical cost	Impairment losses and accumulated amortisation	Historical cost	Impairment losses and accumulated amortisation		Historical cost	Impairment losses and accumulated amortisation				
Concessions, licenses, trademarks and similar	8,298	(7,257)	1,041	879	941	(881)			(27)	-	-	(706)	10,091	(8,844)	1,247
Goodwill	243,714	(11,837)	231,877	40,083	9,500	(6,284)	(311)	99		-		(617)	292,986	(18,639)	274,347
Assets under development and payments on account	35	-	35	149					(34)				150	-	150
Other intangible assets	773	(522)	251	1,124	-	-				(341)	80	(178)	1,556	(620)	936
Total	**252,820**	**(19,616)**	**233,204**	**42,235**	**10,441**	**(7,165)**	**(311)**	**99**	**(61)**	**(341)**	**80**	**(1,501)**	**304,783**	**(28,103)**	**276,680**

The useful lives of each intangible asset category are shown below:

Category	**Useful life - Years (range)**		
Industrial patents and intellectual property rights	5.0		25.0
Concessions, licences, trademarks and similar rights	3.0	-	7.0
Other intangible assets	3.0	-	7.0
Goodwill		indefinite	

Goodwill for each operating segment is shown below together with details of changes compared to 31 December 2016:

(eur/000)	*31/12/2017*	*%*	*31/12/2016*	*%*	*Var.*
Nursing homes	141,754	52%	139,191	62%	2,563
Rehabilitation	95,093	35%	72,618	29%	22,475
Cancer treatment and diagnostic services	36,984	13%	19,552	9%	17,432
Acute Care	0	0%	0	0%	0
Corporate	516	0%	516	0%	0
Total	**274,347**	**100%**	**231,877**	**100%**	**42,470**

The increase of € 42,470 thousand recorded at 31 December 2017 is due to: the acquisition of Laboratorio Salus Macerata S.r.l. (€ 761 thousand), a clinical analysis laboratory accredited with the Italian National Health Service and operating in Macerata; the acquisition of the "Barbarano" nursing home business (€ 2,770 thousand); the acquisition of Psicogest S.r.l. (€ 2,562 thousand), operator of a psychiatric care community; the acquisition of Ecomedica SpA (€ 18,261 thousand), a company specialising in diagnostics and radiotherapy; the acquisition of Villa Margherita Srl (€ 18,890 thousand); and the acquisition of the CEMEF outpatient centre (€ 53 thousand). These increases were only partially offset by impairment adjustments to goodwill recognised on Medipass Leeds and Medipass Belfast (€ 617 thousand). The translation of financial statements prepared in foreign currency had a negative exchange rate effect of €212 thousand.

As already stated, given the complexity involved in identifying the fair value attributable to the assets and liabilities acquired, the Group has made use of the possibility under IFRS to perform the allocations regarding new investments on a provisional basis while reserving the right to determine the final values within twelve months of the acquisition date.

Impairment test

As required by IAS 36, the KOS Group has performed impairment testing to check the recoverability of the carrying amounts of property, plant and equipment and intangible assets recognised in the Group's consolidated financial statements at 31 December 2017. The goodwill in the consolidated financial statements is tested for impairment at least once a year even if there are no indicators of impairment.

Under the method required by IAS 36, the KOS Group has identified CGUs (Cash Generating Units) which represent the smallest identifiable units in the consolidated financial statements that are capable of generating cash flow on a broadly independent basis. The organisational structure, the type of business and the manner in which control is exercised over the operations of the CGUs themselves were taken into account when identifying the CGUs.

The Group operates in two different Strategic Business Units (SBUs) i.e. Long Term Care and Hospital Management/Services which are, in turn, divided into three operating segments: Long Term Care (Rehabilitation and nursing home management), Acute care (*Ospedale di Suzzara*) and Cancer Treatment and Diagnostics (under the Medipass brand). Management has identified the following CGUs:

- In the "Long Term Care" segment, the CGUs have been identified on a regional level, as follows:
  - Lombardy
  - Piedmont
  - Tuscany
  - Liguria
  - Emilia Romagna
  - Veneto
  - Marche
  - Lazio
  - Trentino
  - Campania
  - Umbria

- In the "Acute Care" segment, the only CGU identified regards the company Ospedale di Suzzara;
- In the "Cancer Treatment and Diagnostics" segment (operating under the Medipass brand), separate CGUs have been identified for each country, as follows:
  - Italy;
  - UK
  - India

The levels tested and the amounts tested (in Euro / thousands) are shown in the following table:

Aggregation	Region / Country	Goodwill
Long Term Care	Lombardy	108,880
	Piedmont	8,600

	Tuscany	540
	Liguria	10,735
	Emilia Romagna	14,891
	Veneto	20,457
	Marche	58,022
	Lazio	2,770
	Trentino	2,715
	Campania	9,241
	Umbria	0
Total Long Term Care (A)		236,849
Acute Care (B)		0
Cancer Treatment and Diagnostics	Italy	31,605
	UK	5,379
	India	0
Total Cancer Treatment and Diagnostics (C)		36,984
Corporate (D)		*516*
Total Goodwill (A+B+C+D)		*274,349*

The recoverability of the amounts recorded was assessed by comparing the carrying amount attributed to the CGUs including goodwill (i.e. the carrying amounts) with recoverable amount (value in use). Value in use is represented by the present value of future cash flows that are expected to be generated by continuous use of the assets relating to the cash generating units plus the terminal value attributable to the same units.

In some cases, where applicable, the results of real estate appraisals - as described in Note 15 Property, plant and equipment – were taken into account.

When performing the impairment test, the KOS Group used the latest income statement and cash flow forecast data for the period 2018-2022 (as described in the paragraph on the use of estimates) and presumed that the assumptions would materialise and objectives be achieved. When processing the forecast data, management made assumptions based on past experience and on prevailing expectations regarding the outlook for the various operating segments.

Terminal value was calculated based on a growth (g) rate of 1.5% (1.5% also in 2016) which is in line with the average long term growth rate for production, the business sector and the country in which the Group operates. Prudently, the same rate of growth was also used for services in India even though a higher rate of growth is forecast for that country. No terminal value was calculated in relation to services in the UK as the test was performed in relation to the duration of the service agreement.

The discount rate applied (WACC) reflects current market valuations of the cost of money and takes account of business-specific risks. This rate, net of taxes, was equal to 5.8% (also 6.0% in 2016) for assets in Italy; 5.4% (5.9% in 2016) for assets in the UK; and 9.5% for assets in India (11.2% in 2016).

As highlighted in the accompanying Directors' Report, certain legislative action ("Spending review") has continued in recent years with regard to measures aimed at reducing public expenditure and, in particular, healthcare expenditure. On the basis of the best information available, the Company's business plan reflects the conclusions reached by management with regard to these measures and, consequently, the estimates made in relation to the recoverability of intangible assets (in particular, goodwill) and tangible assets consider the impact of these measures on future earnings.

The test performed did not identify any impairment except in relation to Ospedale di Suzzara where an impairment loss of around € 2 million was identified. It should, however, be noted that said company does not have any goodwill and that said amount was determined in relation to all of its tangible assets. The company believes that this is a temporary loss due to a part of an item of property, plant and equipment that will follow the normal depreciation process until the end of the concession.

It should also be noted that, as recoverable amount is determined based on estimates, the Group cannot guarantee that the value of goodwill will not be impaired in future periods. In light of the current market crisis, the factors used to make the estimates may have to be revised.

The Group has also performed a sensitivity analysis considering variations in the underlying assumptions behind the impairment test and, in particular, in the variables that most affect recoverable amount (the discount rate, growth rates, terminal value), determining the level of such variables that make value in use equal to carrying amount as shown below:

Long Term Care: the sensitivity analysis performed on the first test level (Region) produced positive results even considering a rate of growth of zero and a significantly higher WACC than that used in the test of all regions considered; this is except for Liguria, Tuscany and Piedmont Regions for which the cover is eliminated considering a growth rate of zero and a WACC of 6.30%, 6.09% and 7.09%, respectively.

Cancer Treatment and Diagnostics: the sensitivity analysis produced positive results even considering a growth rate of zero and a significantly higher WACC than that used for the test. Further scenarios based on a deterioration in the most sensitive variables did not have any significant impact as the sector mainly operates based on contracts already acquired.

Acute Care: this operating segment consists of Ospedale di Suzzara. As growth rate g is not a variable considered when calculating value in use, the sensitivity analysis was conducted changing only the WACC. Even applying very low WACC rates, the impairment is not recovered.

16) *Property, plant and equipment*

At 31 December 2017, net property, plant and equipment amounted to € 323,113 thousand against € 322,511 thousand at 31 December 2016.

The table shows a breakdown of this item and changes thereon in 2017.

	Opening balance			Changes in the year									Closing balance		
	Historical cost	Impairment losses and accumulated amortisation	Carryng amount as at 31/12/2016	Purchases	Changes in consolidation scope		Exchange differences		Other changes	Net disposals		Impairment losses and amortisation	Historical cost	Impairment losses and accumulated amortisation	Carryng amount as at 31/12/2017
(eur/000)					Historical cost	Impairment losses and accumulated amortisation	Historical cost	Impairment losses and accumulated amortisation		Historical cost	Impairment losses and accumulated amortisation				
Land	27,007	(522)	26,485	2,098	-				-	(1,901)			27,204	(522)	26,682
Buildings	198,778	(47,609)	151,169	5,945	3,311	(984)			10,436	(15,362)	4,652	(6,335)	203,108	(50,276)	152,832
Pland and Machinery	88,903	(45,421)	43,482	3,283	14,279	(10,891)			22	(2,462)	2,183	(8,717)	104,025	(62,846)	41,179
Industrial and commercial equipment	71,173	(40,500)	30,673	9,783	2,573	(2,339)	(1,296)	328	295	(1,877)	287	(5,719)	80,651	(47,943)	32,708
Other assets	102,991	(57,773)	45,218	6,582	2,198	(1,788)	(44)	18	2,236	(1,372)	1,036	(7,184)	112,591	(65,691)	46,900
Assets under construction and payments on account	25,484		25,484	10,293	24		-		(12,989)			-	22,812		22,812
Total	**514,336**	**(191,825)**	**322,511**	**37,984**	**22,385**	**(16,002)**	**(1,340)**	**346**	**-**	**(22,974)**	**8,158**	**(27,955)**	**550,391**	**(227,278)**	**323,113**

Land and buildings are recognised at historical cost. In order to test their carrying amount, independent appraisals were performed at 31 December 2017.

Fair value was determined using generally accepted valuation methods and principles based on the most widely applied valuation criteria. Following the valuations performed in 2017, the historical cost of certain assets was adjusted by around € 190 thousand to bring it into line with fair value.

Increases for the year, amounting to € 38 million, include ordinary capex (restoration of current operating capacity - around € 15.3 million), capex to comply with laws and regulations (€ 6.5 million) and capex on business development/expansion (€ 16.2 million). Details of the business development capex during the year are provided below:

- € 0.2 million relates to down payments made on the purchase of two plots of land, in the provinces of Verona and Brescia, on which the Group plans to build two Nursing Homes once planning permission has been obtained;
- € 1.3 million has been invested on the construction of a facility in the Municipality of Campofilone;
- € 10.3 million relating to new equipment installed at client hospitals, management of whose diagnostics services has been contracted to subsidiaries Medipass S.r.l. and ClearMedi Health Care Ltd;
- € 2.4 million relating to the construction of a building to house a 120-bed Nursing Home in the Municipality of Vimercate;
- € 2 million regarding other capex incurred during 2017 to develop existing facilities;

Business combinations refers to assets acquired during the period through the acquisition of equity investments or business units. In particular, we highlight the acquisitions of Ecomedica SpA, the Barbarano business and companies Villa Margherita S.r.l. and Psicogest S.r.l..

Disposals include the sale of the "Centro Cardinal Ferrari" building to the Spazio Sanità Fund.
As in prior years, the depreciation charged to the income statement was determined based on the residual useful lives of the assets in question by applying depreciation rates felt to represent their useful lives.
When the above real estate appraisals were performed, useful life was also examined and a component analysis performed.

The useful lives of each asset category are shown below:

Category	Useful life - Years (range)			Useful life - Years (average)
Buildings			33.3	33.3
General plants	8.0	-	12.5	10.3
Electrical and plumbing systems	7.7	-	8.3	8.0
Sanitary systems	7.7	-	8.3	8.0
Kitchen appliances	7.7	-	8.3	8.0
Telephone and data systems	7.7	-	8.3	8.0
Kitchen equipment	4.0	-	8.0	6.0
General equipment	4.0	-	8.0	6.0
Medical equipment	8.0	-	10.0	9.0
Healthcare furniture and fittings	8.3	-	10.0	9.2
Office furniture and fittings	7.7	-	8.3	8.0
Linen			2.5	2.5
Electronic office machines			5.0	5.0
Vehicles	4.0	-	5.0	4.5
Telephone systems			5.0	5.0

The following table contains details of mortgages secured on certain real estate properties:

(€/000)	Mortgage value
Property in Riva	9,400
Property in Sanremo	7,600
Property in Tonengo d’Asti	4,130
Property in Civitanova Marche	17,920
Property in Porto Potenza Picena	48,967
Property in Modena	761
Property in Ancona	9,000
Property in Borgo San Lorenzo	4,000
Property in Villadose	14,400
Property in Riolo Terme	15,000
Total	**131,178**

The table below shows the carrying amount at 31 December 2017 of assets held under leases that are subject to collateral as actual title, under the lease agreements, will be transferred upon exercise of the final purchase option:

(€/000)	Historical cost	Accumulated depreciation	Carryng amount as at 31/12/2017	Buildings	Plant and Equipment	Industrial and commercial equipment	Land	Furniture and fittings	Other
Monza property	11,212	(3,756)	7,456	5,745		970	741		
Cinisello property	23,642	(2,979)	20,663	17,212		2,269	1,182		
Montecosaro property	6,820	(699)	6,121	4,880			1,241		
Foligno property	11,141	(891)	10,250	9,912			338		
Porto Potenza Picena - Pad.F property	10,577	(1,018)	9,559	9,398			161		
Ascoli property	6,820	(171)	6,649	6,649					
Industrial and commercial equipment	1,072	(1,072)	0						
Plant and equipment	746	(531)	215			215			
Total	**72,030**	**(11,117)**	**60,913**	**53,796**	**0**	**3,454**	**3,663**	**0**	**0**

* Including properties under construction

17) Investment property

This item includes investment property owned by the KOS Group, specifically two hotels and an apartment in Marche Region. Changesduring the year were as follows:

	Opening balance			Changes in the year									Closing balance		
	Historical cost	Impairment losses and accumulated amortisation	Carryng amount as at 31/12/2016	Purchases	Changes in consolidation scope		Exchange differences		Other changes	Net disposals		Impairment losses and amortisation	Historical cost	Impairment losses and accumulated amortisation	Carryng amount as at 31/12/2017
(eur/000)					Historical cost	Impairment losses and accumulated amortisation	Historical cost	Impairment losses and accumulated amortisation		Historical cost	Impairment losses and accumulated amortisation				
Investment property	7,824	(3,006)	4,818	46								(173)	7,870	(3,179)	4,691
Total	**7,824**	**(3,006)**	**4,818**	**46**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(173)**	**7,870**	**(3,179)**	**4,691**

Investment property was valued upon acquisition and again at 31 December 2017.

18) Other investments

This item includes the following non-controlling investments over which, notwithstanding the percentage interests held, the KOS Group did not hold control on either a *de facto* or a legal basis as at 31 December 2017.

These equity investments are considered as “available for sale” in light of the lack of significant influence and taking account of the fact that one or more of the following circumstances are met in relation to these investments:

- no representation on the board of directors
- no participation in the decision-making processes
- no significant transactions
- no exchange of management personnel or supply of key technical information

This item also includes investments in entities under common control, as recorded using the equity method from the date when common control began until the time it ceases to exist. The subsequent measurement of the investment for consolidation purposes generated a loss of € 80 thousand which was classified in the Income Statement under “adjustments to equity-accounted investees”.

Other investments in associates and other equity-accounted investees

Name	Main office	Share capital (Eur)		Owner	% of investment	Group interest	Carrying amount (eur) 31/12/2017	Carrying amount (eur) 31/12/2016
Osimo Salute S.p.A	Osimo (AN)	750,000	€	Abitare il tempo S.r.l	25.50%	14.03%	893	892
Fondo Spazio Sanità	Roma	80,756,000	€	KOS Care S.r.l	1.11%	1.11%	900	900
Apokos Rehab PVT Ltd*	Andhra Pradesh - India	169,500,000	INR	Kos S.p.A	50.00%	50.00%	856	936
Altre imprese							20	5
Total							**2,669**	**2,733**

19) Other Non-Current assets

The following table provides a breakdown of this item:

(eur/000)	31/12/2017	31/12/2016	Var.
Tax assets	2,301	370	1,931
Security deposits	22	14	8
Receivables from social security institutions	151	147	4
Other receivables assets	652	-	652
Total	**3,126**	**531**	**2,595**

This item includes receivables from social security institutions and the extraordinary tax assets for the IRES rebate of companies not included in the tax consolidation scheme (Article 2(1) of Decree Law no 201/2011) of around € 2,266 thousand.

“Other assets” includes a payment on account made to a supplier in relation to a Nursing Home that will be leased by the Group once construction has been completed.

20) Deferred taxes

This includes deferred tax assets and deferred tax liabilities arising on temporary differences between profit/loss per the financial statements and taxable income.

(eur/000)	31/12/2017		31/12/2016	
	Difference	Tax	Difference	Tax
Temporary difference in current assets	12,089	2,912	9,847	2,455
Temporary difference in non-current assets	12,056	3,133	13,595	3,442
Temporary difference in current liabilities	4,034	1,077	1,221	293
Temporary difference in provisions for personnel	15,705	3,777	11,613	2,807
Temporary difference in provisions for risks and charges	21,011	5,791	19,389	4,882
Temporary difference in financial instruments	840	211	691	143
Temporary difference from tax losses	12,623	3,717	8,100	2,480
Total	**78,358**	**20,618**	**64,456**	**16,502**

(eur/000)	31/12/2017		31/12/2016	
	Difference	Tax	Difference	Tax
Temporary difference in current assets	13	4	13	4
Temporary difference in non-current assets	35,512	14,693	43,604	12,365
Temporary difference in provisions for personnel	(1,220)	(294)	4,450	1,111
Temporary difference in financial instruments	11	3	996	239
Total	**34,316**	**14,406**	**49,063**	**13,719**

With regard to deferred tax assets:

- the temporary differences in current assets mainly relate to the allowance for impairment;
- the temporary differences in non-current assets mainly regard the effect of recognising leases in accordance with the financial method (IAS 17) and differences in depreciation/amortisation charges for financial reporting and tax purposes;
- the temporary differences in payroll provisions mainly regard provisions created for collective labour agreement renewal;
- the temporary differences in financial instruments mainly regard the valuation of derivative financial instruments.

With regard to deferred tax liabilities:

- the temporary differences in non-current assets mainly regard the effect of recognising leases in accordance with the financial method (IAS 17) and the effect of allocating part of the acquisition cost of Santo Stefano Group to the assets of the said company, as occurred in 2007;
- the temporary differences in payroll provisions are mainly due to the different treatment of the post-employment benefits for IFRS purposes (IAS 19).

Tax losses not yet used for the calculation of deferred taxes amount to € 100 thousand. For reasons of prudence, no deferred tax assets have recognised on such losses. A detailed analysis is provided below:

	31/12/2017	31/12/2016
Prior year losses	12,723	8,182
of which:		
- tax losses that generated deferred tax assets	12,623	8,100
- tax losses that did not generate deferred tax assets	100	82

Net deferred tax liabilities of € 20 thousand were recognised directly in equity at year end. This amount regards the tax effect of restating the financial instruments used to hedge the interest rate risk at fair value (€12 thousand), and the tax effect relating to actuarial gains/losses recorded directly in equity (€ 32 thousand).

Changes in deferred tax assets and liabilities compared to 31 December 2016 are analysed below, inclusive of the effects on equity not taken through profit or loss. The effects of the acquisitions made in 2017, especially

Ecomedica S.p.A. and Villa Margherita S.r.l., had an impact of € 437 thousand on deferred tax assets and € 168 thousand on deferred tax liabilities.

Changes in deferred tax assets and liabilities

(eur/000)	31/12/2016	Use of deferred taxes from previous year	Deferred taxes for the year	Changes in consolidation scope	Other changes	31/12/2017
Deferred tax assets						
- in profit or loss	15,283	(661)	4,634			19,256
- in equity	1,219	(401)	107	437		1,362
Total	**16,502**	**(1,062)**	**4,741**	**437**	**-**	**20,618**

(eur/000)	31/12/2016	Use of deferred taxes from previous year	Deferred taxes for the year	Changes in consolidation scope	Other changes	31/12/2017
Deferred tax liabilities						
- in profit or loss	(7,095)	158	(1,135)		-	(8,072)
- in equity	(6,624)	593	(135)	(168)		(6,334)
Total	**(13,719)**	**751**	**(1,270)**	**(168)**	**-**	**(14,406)**
Net deferred taxes	**2,783**	**(311)**	**3,471**	**269**	**-**	**6,212**

During the year, deferred tax assets recognised through profit or loss had a positive impact of € 3,973 thousand while the negative impact relating to accounting for deferred tax liabilities was equal to € 977 thousand.

The following table shows changes in deferred tax assets and liabilities in 2016.

(eur/000)	31/12/2015	Use of deferred taxes from previous year	Deferred taxes for the year	Changes in consolidation scope	Other changes	31/12/2016
Deferred tax assets						
- in profit or loss	12,441	(1,385)	4,227			15,283
- in equity	1,169	(268)	123	195		1,219
Total	**13,610**	**(1,653)**	**4,350**	**195**	**-**	**16,502**

(eur/000)	31/12/2015	Use of deferred taxes from previous year	Deferred taxes for the year	Changes in consolidation scope	Other changes	31/12/2016
Deferred tax liabilities						
- in profit or loss	(6,574)	37	(558)		-	(7,095)
- in equity	(5,998)	289	(144)	(771)		(6,624)
Total	**(12,572)**	**326**	**(702)**	**(771)**	**-**	**(13,719)**
Net deferred taxes	**1,038**	**(1,327)**	**3,648**	**(576)**	**-**	**2,783**

Current assets

21) Inventories

At 31 December 2017, inventories amounted to € 3,358 thousand. The table contains a breakdown of the categories of goods in inventory together with prior year comparative figures.

(eur/000)	31/12/2017	31/12/2016	Var.
Other goods	130	148	(18)
Healthcare goods	3,018	2,628	390
Food product inventory	210	194	16
Total	**3,358**	**2,970**	**388**

Inventories include medical products and other items normally utilised in the Group's core business.

Inventory turnover is adequate, also considering the type of goods, and no provision was necessary.

22) Receivables from parent company

(eur/000)	31/12/2017	31/12/2016	Var.
Receivables from parent company	1,392	1,522	(130)
Total	**1,392**	**1,522**	**(130)**

The receivables from parent company CIR S.p.A. were generated by the inclusion of the IRES tax receivables arising from the participation of several KOS Group companies in the tax consolidation scheme.

23) Trade receivables

At 31 December 2017, trade receivables amounted to € 96,724 thousand, an increase of € 9,206 thousand on 31 December 2016. The balance is analysed as follows:

(eur/000)	31/12/2017	%	31/12/2016	%	Var.
Receivables from private customers	31,243	26%	23,100	21%	8,143
Receivables form public-sector customers	89,687	74%	85,623	79%	4,064
Provision for doubtful debts	(24,206)		(21,205)		(3,001)
Total	**96,724**	**100%**	**87,518**	**100%**	**9,206**

A specific allowance for impairment is created to bring trade receivables into line with their estimated realisable amount. Allocations to the allowance for impairment are made based on a detailed assessment of each receivable balance, taking account of overdue balances. During the year, the allowance was increased by € 2,085 thousand, net of the impairment of interest on arrears.

The allowance for impairment includes a prudent allowance made upon the invoicing of interest on arrears, mainly to public sector customers. This allowance stood at € 6,621 thousand at 31 December 2017, higher than at 31 December 2016 (€ 6,343 thousand).

The carrying amount of trade receivables, net of the allowance, is close to their fair value.

Trade receivables at 31 December 2017 and 2016 are broken down by region in the table below:

(eur/000)	31/12/2017	%	31/12/2016	%	Var.
Lombardy	7,238	7%	8,551	10%	(1,313)
Trentino Alto Adige	696	1%	1,168	1%	(472)
Veneto	4,994	5%	2,415	3%	2,579
Piedmont	6,269	6%	4,923	6%	1,346
Liguria	2,880	3%	2,504	3%	376
Tuscany	2,149	2%	1,542	2%	607
Emilia Romagna	11,070	11%	10,990	13%	80
Marche	37,923	39%	33,379	38%	4,544
Lazio	12,182	13%	10,826	12%	1,356
Campania	2,650	3%	1,659	2%	991
Sicily	81	0%	1,193	1%	(1,112)
Other regions	1,263	1%	5,791	7%	(4,528)
Foreign countries	7,329	8%	2,577	3%	4,752
Total	**96,724**	**100%**	**87,518**	**100%**	**9,206**

At 31 December 2017 and 31 December 2016, there were no trade receivables due after more than five years.

24) Other assets

At 31 December 2017, other assets amounted to € 9,936 thousand, a decrease of €2,423 thousand compared to 31 December 2016, as detailed below:

(eur/000)	31/12/2017	31/12/2016	Var.
Receivables from associates	105	105	-
Receivables from others	7,367	8,708	(1,341)
Tax assets	2,464	3,546	(1,082)
Total	**9,936**	**12,359**	**(2,423)**

"Tax assets" mainly include VAT assets of € 509 thousand (€ 160 thousand at 31 December 2016) and IRES and IRAP payments on account totalling around € 440 thousand (€ 14 thousand at 31 December 2016). The 31 December 2016 balance also included the extraordinary credit for IRES refunds of companies not included in the tax consolidation scheme (Article 2(1) of Decree Law no 201/2011) as now reclassified to non-current assets.

Other assets mainly include payments on account made to health and safety institution INAIL, advances to suppliers, sundry deposits, receivables due to non-recourse factoring and prepayments and accrued income mainly consisting of prepaid rent.

At 31 December 2017 and 31 December 2016, there were no other assets due after more than five years.

25) Financial assets

The balance of € 17,049 thousand at 31 December 2017 has increased compared to 31 December 2016 (€ 9,814 thousand) and mainly reflects the inclusion of receivables from non-recourse factoring, as well as the positive fair value (€13 thousand) of the derivative instruments arranged to hedge the risk of interest rate fluctuation.

26) Cash and cash equivalents

Cash and cash equivalents totalled €32,820 thousand at 31 December 2017, down by €5,311 thousand on 31 December 2016. They can be broken down as follows:

(eur/000)	31/12/2017	31/12/2016	Var.
Bank and postal deposits	32,369	37,806	(5,437)
Cash and cash equivalents on hand	250	175	75
Cheques	201	150	51
Total	**32,820**	**38,131**	**(5,311)**

Changes in cash and cash equivalents in 2017 are analysed in the statement of cash flows.

The carrying amount of these assets is in line with their fair value at 31 December 2017 and 31 December 2016.

Cash and cash equivalents consist of amounts whose use is not subject to any restrictions.

The Group's net financial debt is € 237,145 thousand against € 213,615 thousand at 31 December 2016. For more information, see the note on the "Net financial debt".

27) EQUITY

The following table shows changes in equity during the year:

	SHARE CAPITAL	LEGAL RESERVE	SHARE ISSUE PREMIUM	STOCK OPTION RESERVE	CASH FLOW HEDGE RESERVE	POST-EMP. BENEFIT	RETAINED EARNINGS(LOSSES)	TRANSLATION RESERVE	PROFIT FOR THE YEAR	TOTAL	PROFIT FOR THE YEAR ATTRIBUTABLE TO NC INTERESTS	NON-CONTROLLING INTERESTS	TOTAL
BALANCE AT 31 DECEMBER 2016	**8,848**	**1,770**	**135,279**	**1,447**	**(452)**	**(2,027)**	**101,890**	**385**	**23,371**	**270,511**	**1,212**	**4,640**	**276,363**
Share capital increase										0		77	77
Profit for the year									29,049	29,049	1,643		30,692
Other comprehensive income													
Changes in cash flow hedge reserve					(107)		144			37			37
Changes in post-employment benefit valuation reserve						(101)				(101)			(101)
Translation differences								(191)		(191)		(11)	(202)
Total other comprehensive income	**0**	**0**	**0**	**0**	**(107)**	**(101)**	**144**	**(191)**	**29,049**	**28,794**	**1,643**	**(11)**	**30,426**
Increase in stock option reserve				385						385			385
Acquisition of non-controlling interests (MHE)							44			44		(73)	(29)
Acquisition of non-controlling interests (PGR)							331			331		(382)	(51)
Acquisition of non-controlling interests (CMH)							(59)			(59)		(19)	(78)
Acquisition of equity investments with non-controlling interests (ECO)										0		47	47
Allocation of prior year profit							23,371		(23,371)	0	(1,212)	1,212	0
Dividends and reserves distribuited to Shareholders			(13,000)							(13,000)		(587)	(13,587)
Utilisation of share premium			(3,717)				3,717			0			0
BALANCE AT 31 DECEMBER 2017	**8,848**	**1,770**	**118,562**	**1,832**	**(559)**	**(2,128)**	**129,438**	**194**	**29,049**	**287,006**	**1,643**	**4,904**	**293,553**

Share capital

Share capital was wholly subscribed and paid at 31 December 2017. It amounted to € 8,848 thousand and was divided into 88,481,034 shares with no nominal value.

The shares are divided into three categories/classes (class "A", "B" and "C" shares) that have the same equity rights and different circulation rights as well as certain particular prerogatives for the class "B" shares in relation to administrative rights.

Share-based payments

KOS S.p.A. has implemented a number of stock option plans in order to provide the Group with a means of offering incentives to directors and employees while building up their loyalty in such a way that key personnel feel a greater sense of belonging to the business. At the same time, the plans help encourage the creation of value for the Company and, therefore, for its shareholders.

Exercise of the stock options is subject to specific time requirements relating to period of employment or appointment and they will only become effective when these requirements are met.

Details of the various plans and movements thereon in 2017 are shown in the following table:

31/12/2017	Outstanding options at 1january		Granted options during the year		Exercised options during the year		Expired options during the year		Outstanding options at the end of the year			Exercisable options at the end of the year		Vesting and expiry dates	
	Options number	Weighted average price for the year	Options number	Weighted average price for the year	Options number	Weighted average price for the year	Options number	Weighted average price for the year	Options number	Average price for the year	Average time to maturity (years)	Options number	Weighted average price for the year	Vesting date (100%)	Expiry date
Stock Option '10 rev	1,661,083	3.52							1,661,083	3.52	15.39	1,661,083	3.52	31/12/2014	17/05/2033
Stock Option '16	1,500,000	7.08							1,500,000	7.08	15.39	0	0.00	17/05/2023	17/05/2033
Total	**3,161,083**	**5.21**							**3,161,083**	**5.21**	**15.4**	**1,661,083**	**3.52**		

The Company values its stock options using the Black-Scholes method.

The value of the stock options recognised in the income statement under Personnel expense for share based payments regarding stock options on KOS S.p.A. shares was equal to € 385 thousand at 31 December 2017.

Reserves

Legal reserve

The legal reserve amounts to € 1,770 thousand and did not increase during 2017.

Share premium reserve

The share premium reserve amounts to € 118,562 thousand and has decreased by € 16,717 thousand compared to 31 December 2016. This decrease is due to the distribution of reserves of € 13,000 thousand and to € 3,717 thousand allocated to retained earnings.

Valuation reserves

The following table shows changes in valuation reserves during the year:

Valuation reserves (eur/000)	31/12/2016	Increase	Decrease	Changes in intrinsic value	31/12/2017
Cash flow hedges	(452)			(107)	(559)
Stock option plans	1,447	385			1,832
Post-employment benefits	(2,027)		(101)		(2,128)
Total	**(1,032)**	**385**	**(101)**	**(107)**	**(855)**

The ***Stock option plan reserve*** offsets costs relating to vesting Stock Options awarded by KOS S.p.A. The change relates to the valuation of the new stock option plans issued from 17 May 2016.

The ***Cash flow hedge reserve*** includes the intrinsic value of the KOS Group derivative contracts based on the cash flow hedge method, allocating it to equity reserve at contract date, in relation to only the effective portion for IRS contracts, and to the variation on Collar and Interest Rate Cap contracts (See *"Disclosures on risks and financial instruments*").

The ***Post-employment benefit valuation reserve*** includes actuarial gains and losses resulting from application of the revised IAS 19 to the Group's post-employment benefits.

Other reserves and retained earnings

This includes the retained earnings (losses carried forward) of consolidated companies and the other reserves of subsidiaries. The change mainly regards the allocation of prior year net income to reserves and utilisation by holding company KOS S.p.A. of part of the share premium. The reserve also includes consolidation differences emerging on the acquisition of non-controlling interests in companies already controlled by the Group plus the effect totalling € 280 thousand of the reversal to equity of the cash flow hedge relating to the derivative of Polo Geriatrico Riabilitativo S.p.A. which was discontinued in 2016.

Equity – non-controlling interests

Equity attributable to non-controlling interests, amounting to € 6,547 thousand (€ 5,852 thousand at 31 December 2016), mainly regards non-controlling interests in companies consolidated on a line by line basis . The increase compared to 31 December 2016 is primarily due to the payment of dividends by Abitare il tempo S.r.l. (€ 587 thousand) and the effect of translation of financial statements prepared in foreign currency, offset by profits for the year (€ 1,643 thousand). There has also been a decrease due to the acquisition of non-controlling interests in Polo Geriatrico Riabilitativo S.p.A. and of part of the non-controlling interests in Medipass Healthcare Ltd.

(eur/000)			
Company	**Non-controlling interests**	**% of direct non-controlling interests**	**Reserves attr. to NC interests**
Abitare il Tempo S.r.l.	46%	46%	3,764
Fidia S.r.l	40%	40%	71
KOS Servizi Società Consortile R.L	3%	0%	-18
Sanatrix Gestioni S.r.l.	23%	0%	1,967
Sanatrix S.r.l.	23%	23%	475
Medipass Healthcare Ltd	2%	2%	2
ClearMedi Healthcare Ltd	3%	0%	3
ClearView Healthcare Ltd	15%	15%	133
Medipass Healthcare Leeds & Belfast Ltd	2%	0%	-41
Medipass Leeds Ltd	2%	0%	52
Medipass Belfast Ltd	2%	0%	76
Ecomedica S.p.A.	2%	2%	63
Total			**6,547**

28) Liabilities and financial liabilities

At 31 December 2017, these amounted to € 287,366 thousand against € 261,560 thousand at 31 December 2016, an increase of € 25,806 thousand.

The following table contains a breakdown of financial liabilities by maturity date as at 31 December 2017 and 31 December 2016.

(euro/000)	31/12/2017	Within the year	1-5 years	Over five years	31/12/2016	Within the year	1-5 years	Over five years
Bank overdrafts	**3,330**	3,330			**1,727**	1,727		
Collateral loans	**44,384**	7,171	27,370	9,843	**39,142**	5,763	23,236	10,143
Loans	**66,070**	1,312	64,758	-	**122,276**	33,031	89,245	-
Bond loan	**98,983**	675	-	98,308				
Other lenders	**1,333**	190	762	381	**1,621**	286	763	572
Finance leases	**72,548**	10,863	31,368	30,317	**95,700**	10,371	38,583	46,746
Valuation of derivatives	**718**	718			**1,094**	1,094		
Total	**287,366**	**24,259**	**124,258**	**138,849**	**261,560**	**52,272**	**151,827**	**57,461**

The following table shows movements on medium/long term financial liabilities between 31 December 2016 and 31 December 2017.

(euro/000)	31/12/2016	Increase	Decrease	Changes in consolidation scope	Exchange difference	31/12/2017
Collateral loans	**39,142**	11,017	(5,775)			**44,384**
Loans	**122,276**	173,470	(229,511)	650	(815)	**66,070**
Bond loan	**0**	98,983				**98,983**
Other lenders	**1,621**		(288)			**1,333**
Finance leases	**95,700**	4,916	(29,859)	1,833	(42)	**72,548**
Valuation of derivatives	**1,094**	152	(528)			**718**
Total	**259,833**	**288,538**	**(265,961)**	**2,483**	**(857)**	**284,036**

Some details of the main changes during the year are described below:

- In July 2017, KOS Spa signed a Group financing agreement for a total of Euro 200 million with a syndicate of banks and used the proceeds to unwind an existing syndicated loan of Euro 100 million (initial loan amount Euro 120 million.
- In October, KOS issued two bond loans by means of private placements subscribed by institutional investors for a total of Euro 99 million; the proceeds were used to repay the same amount of the bank loan arranged in July.
- Early repayment of real estate lease for Centro Cardinal Ferrari and subsequent sale to a real estate fund;
- Early repayment of real estate lease in Turin and replacement with a secured loan;
- Arrangement of new finance leases for machinery purchases of around € 4.5 million by Medipass S.r.l and arrangement of loans of around € 9.2 million by Clearmedi Ltd;
- Changes in the scope of consolidation are due to new acquisitions (Ecomedica, Villa Margherita etc);
- Decreases due to principal repayments on loans;

Financial liabilities and bank borrowings

Further information on the loans and the related covenants is provided in Note 3.5.

Pursuant to IAS 39, loans are stated at amortised cost, where considered significant, as determined using the effective interest rate method (taking account of both explicit market interest and incidental charges incurred to arrange the loan) i.e. the rate that discounts future cash flow over the life of the financial instrument so as to arrive at its net carrying amount (see Note 4 "*Disclosures on risks and financial instruments*").

The Group is party to finance lease agreements which it accounts for in accordance with IAS17. The following table contains details of the main finance lease payables at 31 December 2017 and 31 December 2016.

(eur/'000)	31/12/2017	31/12/2016	Var
Property lease - Centro Cardinal Ferrari	-	10,914	- 10,914
Property lease - Padiglione F.	6,779	7,273	- 495
Property lease - Montecosaro	4,342	4,687	- 343
Property lease - Monza	7,486	7,845	- 360
Property lease - Foligno	5,349	5,512	- 163
Property lease - Foligno	3,940	4,063	- 122
Property lease - Turin	-	9,565	- 9,565
Property lease - PGR	12,243	13,813	- 1,570
Property lease - Ascoli	5,592	5,940	- 348
High-tech machinery lease	26,815	26,088	727
Total	**72,547**	**95,700**	**(23,153)**

The decrease is mainly due to the early termination of the Centro Cardinal Ferrari lease and the Turin Delleani lease; the latter has been replaced by a mortgage loan.

Other financial liabilities

The following table contains a breakdown of this item at 31 December 2017 and 31 December 2016.

(eur/000)	31/12/2017	31/12/2016	Var
Regional fund (FRISL)	1,334	1,334	0
Other		286	(286)
Total	**1,334**	**1,620**	**(286)**

Other financial liabilities includes € 1,334 thousand (€ 1,334 thousand at 31 December 2016) relating to an interest free "repayable grant" from Lombardy Region to fund construction of a nursing home in Milan; the funding is from the Lombardy Social Infrastructure Reconstruction Fund (*Fondo Ricostruzione Infrastrutture Sociali Lombardia (FRISL*).

Financial liabilities on the valuation of derivatives

These relate to the fair value of IRS (interest rate swap), Collar, Interest Rate Cap and forward currency contracts entered into by the Group in order to hedge the interest rate risk and the exchange rate risk.

29) Deferred tax liabilities

Deferred tax liabilities totalled € 14,406 thousand at 31 December 2017, an increase compared to 31 December 2016 (€ 13,719 thousand).

The deferred tax liabilities relate to temporary differences between the value of the assets and liabilities recognised in the financial statements and their corresponding value for tax purposes. See note 20 "Deferred taxes" for more information.

30) Provisions for personnel

These include post-employment benefits and other employee benefits accruing at year end. Where applicable, they are valued, on a six-monthly basis, under the actuarial method required by IAS 19. At 31 December 2017, the post-employment benefits amounted to € 24,774 thousand, an increase of €2,263 thousand compared to 31 December 2016.

The following table shows changes in the provisions for personnel in 2017.

(eur/000)	31/12/2017	31/12/2016
Opening balance	22,511	20,614
Service cost	9,148	8,436
Finance cost	276	400
Benefits paid	(1,399)	(1,233)
Change in consolidation scope	2,255	918
Transfers to pension funds/treasury fund	(7,936)	(7,525)
Other changes	(213)	(120)
Net unrealised actuarial gains	132	1,021
Provisions for personnel	**24,774**	**22,511**

In compliance with IAS 19, employee benefits have been reported according to the 'projected unit credit cost' method based on the following assumptions:

Economic assumptions	**31/12/2017**	**31/12/2016**
Inflation rate	1.50%	1.50%
Discount rate	1,3%*	1,31%*
Remuneration increase rate	0,50% - 1,50%	0,50% - 1,50%
ESI increase rate	2.625%	2.63%

Demographic assumptions	**31/12/2017**	**31/12/2016**
Mortality rate	RG48	RG48
Disability rate	INPS table by age and sex	INPS table by age and sex
Retirement rate	100% to reached of compulsory general insurance requirements	100% to reached of compulsory general insurance requirements

*IBOXX Eurozone Corporates AA

The following is also shown for each company:

- sensitivity analysis for each relevant actuarial assumption, showing the effects in absolute terms of variations in the actuarial assumptions that would be reasonably possible at that date;

- details of contribution for next reporting period;

- details of average financial duration of defined benefit plan obligation;

- payments expected by the plan.

Company	Assumption variation					
	employee turnover		inflation rate		discount rate	
	1%	-1%	25	- 1/4 %	25	- 1/4 %
EL.SI.DA. SRL	152,849.95	157,859.24	159,766.66	150,726.72	149,708.83	160,905.66
KOS S.p.A.	507,638.27	519,924.79	524,672.21	502,510.47	499,164.64	528,327.45
KOS SERVIZI SOC. CONSORTILE A R.L.	2,659,050.35	2,709,048.30	2,740,862.46	2,626,032.18	2,611,191.83	2,757,049.08
MEDIPASS S.R.L.	1,034,397.37	1,049,009.61	1,062,583.75	1,020,435.45	1,014,329.83	1,069,255.08
OSPEDALE DI SUZZARA SPA	105,006.35	106,636.53	107,444.23	104,123.00	103,146.71	108,500.44
ECOMEDICA SPA	685,313.15	707,222.45	713,677.82	678,027.57	673,737.26	718,430.22
KOS CARE S.R.L.	15,915,670.46	16,086,543.40	16,216,564.11	15,780,312.95	15,651,332.80	16,354,238.44
ABITARE IL TEMPO S.R.L.	415,793.05	422,695.44	428,117.13	410,180.42	407,598.02	430,956.22
SANATRIX GESTIONI S.R.L.	878,104.13	884,974.74	890,297.32	872,558.40	867,573.77	895,629.96
FIDIA S.R.L.	107,854.03	108,772.46	110,491.90	106,128.84	105,447.94	111,234.10
JESILAB S.R.L.	69,083.19	70,650.86	72,140.42	67,548.78	66,900.60	72,863.23

Company	Service Cost	Duration (Years)
EL.SI.DA. SRL	33,516.05	19.80
KOS S.p.A.	49,208.36	16.10
KOS SERVIZI SOC. CONSORTILE A R.L.	528,297.62	16.50
MEDIPASS S.R.L.	178,725.05	15.60
OSPEDALE DI SUZZARA SPA	0.00	10.80
ECOMEDICA SPA	84,755.34	18.30
KOS CARE S.R.L.	0.00	9.50
ABITARE IL TEMPO S.R.L.	52,959.48	15.70
SANATRIX GESTIONI S.R.L.	0.00	7.10
FIDIA S.R.L.	15,188.26	16.50
JESILAB S.R.L.	14,916.50	25.70
TOTAL	957,566.66	

Company	Year				
	1	2	3	4	5
EL.SI.DA. SRL	15,274.19	8,027.79	8,692.05	9,308.00	9,877.96
KOS S.p.A.	63,678.84	23,812.78	25,309.58	26,706.73	27,990.21
KOS SERVIZI SOC. CONSORTILE A R.L.	255,252.38	107,041.40	154,363.91	196,222.73	223,703.19
MEDIPASS S.R.L.	131,354.89	71,964.09	120,128.62	75,068.04	77,786.10
OSPEDALE DI SUZZARA SPA	11,942.38	5,903.94	5,641.84	5,391.50	8,318.12
ECOMEDICA SPA	37,191.57	24,549.81	96,203.84	25,507.54	89,631.94
KOS CARE S.R.L.	1,681,902.17	720,358.97	984,974.50	1,034,948.32	1,037,723.31
ABITARE IL TEMPO S.R.L.	71,897.11	19,560.19	25,321.99	21,279.57	22,115.48
SANATRIX GESTIONI S.R.L.	280,388.93	33,351.93	37,392.07	69,311.55	96,964.89
FIDIA S.R.L.	8,156.75	7,939.65	8,334.91	8,666.33	8,944.23
JESILAB S.R.L.	5,184.97	1,714.18	1,945.75	2,180.67	2,415.64
TOTAL	2,562,224.18	1,024,224.73	1,468,309.06	1,474,590.98	1,605,471.07

31) Provisions for risks and charges

The following table shows changes in 2017:

(eur/000)	31/12/2016	Increase	Utilization	Changes in consolidation scope	Other changes	Exchange difference	31/12/2017
NON-CURRENT							
Provisions for legal disputes	5,088	1,969	(585)				6,472
Total "NON-CURRENT"	**5,088**	**1,969**	**(585)**	**-**	**-**	**-**	**6,472**
CURRENT							
Provisions for sundry risks	33,389	11,650	(4,894)	(1,314)	-	6	38,837
Total "CURRENT"	**33,389**	**11,650**	**(4,894)**	**(1,314)**	**-**	**6**	**38,837**
TOTAL PROVISIONS FOR RISKS AND CHARGES	**38,477**	**13,619**	**(5,479)**	**(1,314)**	**-**	**6**	**45,309**

The Group companies are involved in various civil law suits regarding medical and surgical practice that could lead to its being ordered to pay compensation. The Group has valued the contingent liabilities that could arise in relation to the pending litigation and has created a related provision for risks. Litigation and claims against the Group can arise as a result of complex, difficult problems involving varying degrees of uncertainty and several appeal levels over a long period of time. The estimated contingent liability was determined after a detailed process with external legal and medical consultants assisting company management to make its objective assessments. Based on the assessments performed, the financial statements include provisions of € 10,522 thousand for litigation and claims with third parties and personnel; € 4,050 thousand of this total is classified under current provisions for sundry risks.

The doctors working at Group healthcare facilities have insurance policies that partially cover the risk of compensation claims made by patients or their relatives for damages suffered as a result of events taking place during their stays at the facilities because of alleged problems with the healthcare services rendered and errors by the personnel working at the facilities.

We also note that provisions for sundry risks include provisions for personnel totalling € 20,357 thousand.

32) Payables to parent company

(eur/000)	31/12/2017	31/12/2016	Var.
Payables to parent company	5,869	8,663	(2,794)
Total	**5,869**	**8,663**	**(2,794)**

Payables to parent company CIR S.p.A. mainly include the IRES tax payables relating to the participation of several KOS Group companies in the Group Taxation Arrangement. The amount payable to the parent company is stated net of the receivable from the same company relating to the IRES refund application recognised in prior years.

33) Trade payables

The following table shows trade payables at 31 December 2017 and the change on 31 December 2016:

(eur/000)	31/12/2017	31/12/2016	Var.
NON CURRENT			
Trade payables	-	-	-
Total "NON CURRENT"	-	-	-
CURRENT			
Trade payables	68,799	67,077	1,722
Advance payments	48	89	(41)
Total "CURRENT"	**68,847**	**67,166**	**1,681**
Total trade payables	**68,847**	**67,166**	**1,681**

Advance payments mostly regard advances on fees received from customers.

The carrying amount of trade payables and other liabilities approximates their valuation at amortised cost.

At 31 December 2017 and 31 December 2016, there were no payables due after more than five years.

34) Other liabilities

At 31 December 2017, other payables *liabilities* to € 52,404 thousand from € 44,154 thousand at 31 December 2016:

(eur/000)	31/12/2017	31/12/2016	Var.
NON CURRENT			
Other sundry liabilities	98	94	4
Total "NON CURRENT"	**98**	**94**	**4**
CURRENT			
Tax liabilities	1,004	1,993	(989)
VAT liabilities	1,350	351	999
Withholdings	5,244	4,762	482
Other tax liabilities	764	624	140
Payables to social security institutions	10,196	9,765	431
Payables to personnel	19,206	17,081	2,125
Guarantee deposits	3,740	3,606	134
Other sundry payables	10,802	5,878	4,924
Total "CURRENT"	**52,306**	**44,060**	**8,246**
Total other payables	**52,404**	**44,154**	**8,250**

Tax payables include the liability for tax deducted at source from employees and freelance personnel.

Payables to employees include payroll liabilities (holiday pay, 14th month's salaries, bonuses, salaries) accruing but not yet paid.

Payables to social security/pension institutions include employee and employer's social security and pension contributions payable.

"Sundry other payables" includes an amount of € 5,548 thousand representing the remaining balance of the acquisition price payable for investments in Casa di Cura Villa Margherita S.r.l. and Ecomedica S.p.A.

35) Guarantees, commitments and risks

Commitments and contingent risks

The following table summarises the Group's commitments and contingent risks at 31 December 2017 and 31 December 2016:

(eur/000)	31/12/2017	31/12/2016	Var.
Surety (building rent)	19,165	16,900	2,265
Surety for key money	225	225	-
Other commitment	6,654	5,848	807
Total	**26,044**	**22,973**	**3,072**

At 31 December 2017, bank guarantees and other guarantees given by KOS SpA and/or the subsidiaries in relation to credit facilities of KOS S.p.A. totalled approximately € 5,471 thousand, as follows:

- Guarantee on behalf of KOS S.p.A for rental of offices in via Durini - around €46 thousand
- Guarantees on behalf of KOS Care S.r.l. for rental agreements - around € 18,287 thousand;
- Guarantee on behalf of Medipass Srl and its subsidiaries for rental agreements - around € 831 thousand
- Guarantee in favour of the Municipality of Sanremo for security deposits on planning permission/urbanisation costs - € 225 thousand;

At 31 December 2017, other commitments and risks amounted to € 6,654 thousand and mainly related to the following:

- assets on free use loan totalling € 2,986 thousand;
- insurance guarantees granted by Ospedale di Suzzara in favour of F.lli Montecchi - € 953 thousand.
- third party commitments for preliminary sale commitments of around € 365 thousand.
- competitive tenders of around € 64 thousand
- contractual commitments for around € 2,286 thousand

The Group operates out of owned and leased/rented facilities. Its lease/rental agreements are for between three and nine years and are generally renewable. At the reporting date, out of 49 nursing homes, eight were owned by the Group as were 12 of the 31 functional and psychiatric rehabilitation facilities. The remaining facilities (outpatient clinics, psychiatric rehabilitation communities, diagnostics departments) are generally rented.

The following table shows real estate rental payments by due date. The amounts stated are net of VAT.

(eur/000)	Reference period	<1 year	>1<2 years	>2<3 years	>3<4 years	>4<5 years	>5 years
Real estate rent due	31/12/2016	25,946	26,353	26,239	26,169	25,897	241,610
Real estate rent due	**31/12/2017**	**30,331**	**30,452**	**30,370**	**30,223**	**29,968**	**274,442**

37) Related party transactions

In compliance with IAS 24, we note that the following entities are considered "related parties" for the purposes of these notes:

a) companies which, directly or indirectly through one or more intermediary companies, control or are controlled by, or are under joint control with the company preparing the financial statements;

b) affiliated companies;

c) physical persons who directly or indirectly hold voting powers in the company preparing the financial statements, such as to give them a dominant influence on the company, and their close relatives[1];

d) executives with strategic responsibilities, i.e. those who have powers and responsibilities for planning, managing and controlling the activities of the company preparing the financial statements, including the company directors and officers and their close relatives;

e) companies where significant voting powers are directly or indirectly held by any individuals described under c) or under d), or where such individuals can exercise significant influence.

Case e) above includes companies owned by the directors or major shareholders of the company preparing the financial statements and companies having an executive with strategic responsibilities in common with the company preparing the financial statements.

KOS S.p.A. and the other Group companies entertain relations of a commercial and financial nature with some related parties, regulated at market conditions from the economic and financial viewpoints, i.e. at such conditions as would be applied to independent parties.

KOS Group's related party transactions mainly involve:

- financial transactions;
- service agreements;
- trade transactions;
- transactions under the CIR Group tax consolidation scheme;

The following table contains details of the transactions of the KOS Group with other entities identified as related

[1] An individual's close relatives are defined as those who can be expected to influence or be influenced by the said individual in their relations with the company.

parties and belonging to the KOS Group at both 31 December 2017 and 31 December 2016:

INTERCOMPANY ASSETS / LIABITIES	31/12/2017						31/12/2016					
	Receivables			Payables			Receivables			Payables		
(eur/000)	Trade	Finan.	Other receiv.	Trade	Finan.	Other payables	Trade	Finan.	Other receiv.	Trade	Finan.	Other payables
Parent company												
CIR S.p.A			1,392			5,869			1,522			8,663
Associates												
Osimo Salute S.p.A.		105						105				
Other related parties	22			754			38			1,891		
Total	22	105	1,392	754	-	5,869	38	105	1,522	1,891	-	8,663

INTERCOMPANY REVENUE/COSTS	31/12/2017						31/12/2016					
	Income			Costs			Income			Costs		
(eur/000)	Sales revenue	Other revenue	Financial income	Purchase costs	Other costs	Financial charges	Sales revenue	Other revenue	Financial income	Purchase costs	Other costs	Financial charges
Parent company												
CIR S.p.A					175						200	
Associates												
Other related parties				1,757	117		28			5,482	137	
Total	-	-	-	1,757	292	-	28	-	-	5,482	337	-

"Other related parties" mainly includes trade relations with labour cooperatives and other companies. The main other related parties include: Coo.s.s. Marche Onlus (costs of € 1,520 thousand and payables of € 674 thousand at 31 December 2017)

Note that the above-mentioned entities are considered related parties of the KOS Group for the following reasons:

- Coo.S. S. Marche Onlus Sooc. Coop. p. A., as, together with KOS Care S.r.l. (formerly Istituto di Riabilitazione S. Stefano), it founded Abitare il Tempo s. r. l. (54% controlled by KOS Care S.r.l. – formerly Istituto di Riabilitazione S. Stefano) and the Chairman and Deputy Chairman of Coo. S. S. Marche are members of the Board of Directors of Abitare il Tempo. The Cooperative is also entrusted with care and nursing services in some of KOS Care S.r.l. (formerly Istituto di Riabilitazione S. Stefano)'s facilities in the Marche region;

The fees of the members of the Boards of Directors of the KOS Group companies amounted to € 1,681 thousand (€ 1,610 thousand in 2016).

The fees of the members of the Boards of Statutory Auditors of the KOS Group companies amounted to € 170 thousand (€ 142 thousand in 2016).

Gross remuneration of the key managers totalled € 1,937 thousand in 2017 (€ 1,882 thousand in 2016).

38) Net financial debt

At 31 December 2017, the net financial debt was as follows:

(eur/000)	31/12/2017	31/12/2016
(A) Cash and cash equivalents	32,820	38,131
(B) Other cash equivalents	-	-
(C) Liquidity (A) + (B)	**32,820**	**38,131**
(D) Securities, derivative financial instruments and other financial assets	17,401	9,814
(E) Total current financial assets (C) + (D)	**50,221**	**47,945**
(F) Payables to banks for account overdrafts	3,330	1,727
(G) Payables to banks for collateral loans	7,171	5,763
(H) Payables to banks for loans	1,312	33,031
(I) Bond loans	675	-
(J) Payables for finance leases	10,863	10,371
(K) Payables to other financing entities	190	286
(L) Derivative financial instruments	718	1,094
(M) Current financial debt (F) + (G) + (H) + (I) + (J) + (K) + (L)	**24,259**	**52,272**
(N) Net current financial position (M) - (E)	**(25,962)**	**4,327**
(O) Payables to banks for collateral loans	37,213	33,379
(P) Payables to banks for loans	64,758	89,245
(Q) Bond loans	98,308	-
(R) Payables for finance leases	61,685	85,329
(S) Payables to other financing entities	1,143	1,335
(T) Non current financial debt (O) + (P) + (Q) + (R) + (S)	**263,107**	**209,288**
(U) Net financial debt (N) + (T)	**237,145**	**213,615**

The net financial debt of parent company KOS S.p.A. is €45.9 million, excluding receivables/payables with subsidiaries of € 77.5 million.

The Group's net financial debt is € 237 million at 31 December 2017 against € 214 million at 31 December 2016. The increase of around € 23 million in net financial debt is mainly due to: (i) the distribution of reserves of around € 13 million; (ii) acquisitions during the year of around € 45 million; (iii) changes in net working capital as partially offset by a reduction in debt of around € 10 million thanks to the sale of a property in Fontanellato (Centro Cardinal Ferrari) and cash flows from operating activities.

The Group's financial position includes: (i) cash and cash equivalents of € 32.8 million; (ii) financial receivables for valuation of derivatives and non-recourse factoring of € 17.4 million; (iii) short-term borrowing (advances on invoices and bank overdraft) of € 3.3 million while total available short term credit facilities amount to € 56.6 million (i.e. there is headroom of € 53.3 million); (iv) non-current debt of € 283.3 million. The Group also has the possibility of using additional non-current lines of credit totalling € 151.6 million.

The statement of cash flows shows that cash flow from operating activities amounted to € 62,839 thousand in the year ended 31 December 2017 compared to € 62,839 thousand in the year ended 31 December 2016.

Cash flows used in investing activities increased from € 38,012 thousand in 2016 to € 66,642 thousand in 20167 mainly because of acquisitions during the year.

Cash flows from financing activities improved from a negative € 5,629 thousand in 2016 to a negative € 2,657 thousand in 2017. This cash flow was mainly due to the distribution of reserves of around € 13 million, an increase in factoring, repayment of the CCF property lease and the agreement of new loans.

39) Earnings or loss per share

Basic earnings per share is calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of outstanding shares. Diluted earnings per share is calculated by dividing the net income for the period attributable to ordinary shareholders by the weighted average number of outstanding ordinary shares during the period adjusted by the dilution effects of options outstanding. The company has only one category of potential ordinary shares, i.e. those deriving from employee stock option plans. The following table contains information relevant to the calculation of basic and diluted earnings per share.

	2017	2016
	December	December
Earning (loss) for the period		
Net earning attributable to shareholders (A)	**29,049,058**	**23,371,332**
Diluted effect (B)	**0**	**0**
Diluted earning (loss) attributable to shareholders (E=A+B)	**29,049,058**	**23,371,332**
Number of shares		
Weighted average number of ordinary shares outstanding (C)	88,481,034	87,429,852
Diluted effect (D)	141,816	1,091,348
Weighted average number of ordinary shares outstanding dluited (F=C+D)	88,622,850	88,521,200
Basic earning (loss) per share (A/C)	**0.328**	**0.267**
Diluited earning (loss) per share (E/m in (F;C))	**0.328**	**0.264**

40) Segment reporting

Segment reporting has been prepared in order to provide the information needed to assess the nature and effects on the financial statements of the activities carried out and the different economic sectors (Para 1 IFRS 8).

The operating segments - on which separate information has been provided - have been identified based on internal reporting and on the operating activities that generate revenues and costs, the results of which are regularly examined by senior management responsible for making decisions on resource allocation and performance assessment and for which separate financial information is available.

The operating segments reported on separately by the Group are: Long term care, Acute Care and Cancer Treatment and Diagnostics. For internal reporting purposes, these segments are grouped into strategic business areas (SBAs).

As the operating segments are based on figures obtained from internal reports, overlapping between the Long term Care and the Acute Care segments may occur in some cases. For reporting purposes, such overlapping is not eliminated as it reflects the approach adopted by the Group Management in reviewing data and performance on a regular basis.

Some income statement and statement of financial position information by operating segment for 2017 and 2016 is provided below.

SBA	LONG TERM CARE		HOSPITAL MANAGEMENT				CORPORATE AND OTHER COMMON SERVICES		IC ELIMINATIONS		Total	
			ACUTE CARE		Cancer treatment and diagnostic services							
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Third party revenue	398,656	381,607	36,774	35,936	55,091	43,509	38	22	-	-	490,559	461,074
Intercompany revenue	1,263	15	15	-	52	180	23,515	21,540	(24,845)	(21,735)	-	-
Total revenue	**399,919**	**381,622**	**36,789**	**35,936**	**55,143**	**43,689**	**23,553**	**21,562**	**(24,845)**	**(21,735)**	**490,559**	**461,074**
EBITDA	71,275	67,215	2,750	2,863	17,543	15,550	(3,770)	(3,198)	-	-	87,798	82,430
EBIT	51,549	47,326	355	510	7,059	5,736	(5,197)	(4,922)	-	-	53,766	48,650
NET FINANCIAL EXPENSES											(11,682)	(10,442)
INCOME TAXES											(11,392)	(13,625)
PROFIT FOR THE YEAR											30,692	24,583
PROFIT FOR THE YEAR ATTR. TO NON-CONTROLLING INTERESTS											1,643	1,212
PROFIT FOR THE YEAR ATTR. TO OWNERS OF THE PARENT											29,049	23,371

SBA	LONG TERM CARE		HOSPITAL MANAGEMENT				CORPORATE AND OTHER COMMON SERVICES		IC ELIMINATIONS		Total	
	LONG TERM CARE		ACUTE CARE		Cancer treatment and diagnostic services							
FINANCIAL POSITION DATA	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Property, plant and equipment*	266,265	270,757	7,310	8,183	53,877	48,023	352	366			327,804	327,329
Intangible assets	237,957	212,865	273	302	37,870	19,591	580	446			276,680	233,204
Other non current assets	2,316	2,305	36	36	8	8	24,053	17,417			26,413	19,766
Assets held for sale											0	0
Current assets	75,512	73,416	996	804	26,692	18,614	58,431	59,480			161,631	152,314
Total assets	**582,050**	**559,343**	**8,615**	**9,325**	**118,447**	**86,236**	**83,416**	**77,709**	**0**		**792,528**	**732,613**
Equity							293,553	276,363			293,553	276,363
Non current liabilities	25,204	22,706	543	110	2,020	1,249	281,090	226,635			308,857	250,700
Liabilities held for sale											0	0
Current liabilities	107,773	100,164	12,150	11,860	20,284	16,393	49,911	77,133			190,118	205,550
Total liabilities	**132,977**	**122,870**	**12,693**	**11,970**	**22,304**	**17,642**	**624,554**	**580,131**	**0**		**792,528**	**732,613**

* Including investment property

41) Significant events after 31 December 2017

In February 2018, the Group acquired Prora S.r.l., parent company of Ideas S.r.l which operates a residential care facility for elderly people unable to take care of themselves. It has Marche Region authorisation and accreditation and has 90 residential beds and 20 day centre beds.

On 22 February 2018, a contract was signed with the Cassa Depositi e Prestiti for a line of credit of up to 25 € million. The loan, together with that agreed with the EIB in 2017, is designed to finance capex in the medical equipment segment, especially on medical diagnostic imaging, nuclear medicine and cancer care; these investments will be performed through the subsidiary Medipass S.r.l.

Milan, 23 February 2018

For the Board of Directors
The Chairman
Carlo Michelini