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

# KOS Group

## Consolidated financial statements as at and for the year ended 31 December 2018

(with independent auditors' report thereon)

KPMG S.p.A.

29 March 2019

KPMG S.p.A.
Revisione e organizzazione contabile
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**(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 2018, the income statement and the 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 2018 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 "parent") 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.

## *Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") 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 parent 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 parent's directors are responsible for the preparation of the group's directors' report at 31 December 2018 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 2018 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 group's consolidated financial statements at 31 December 2018 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 2019

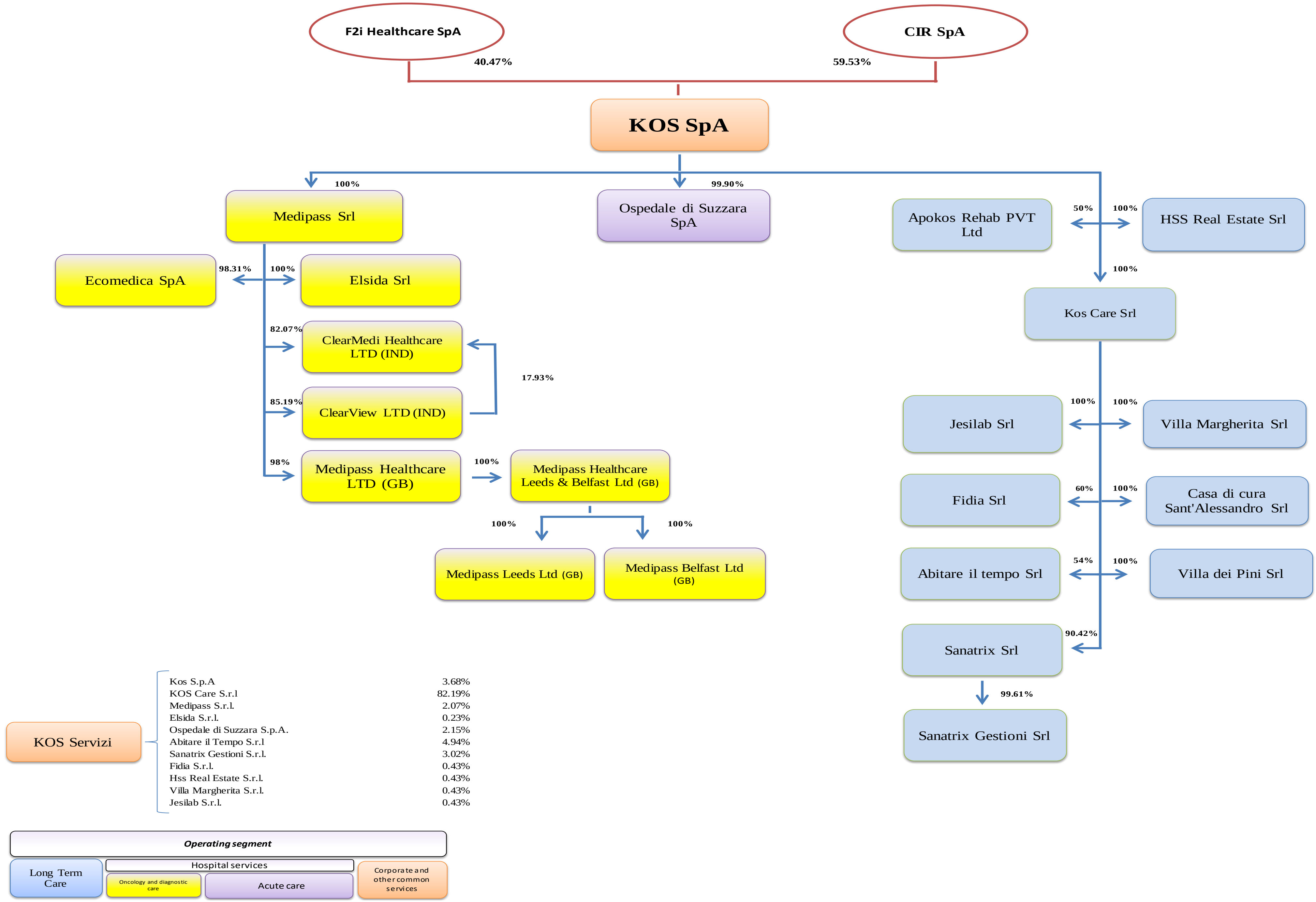
KPMG S.p.A.

(signed on the original)

Claudio Mariani
Director of Audit

KOS

# CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018


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
82.07%
ClearMedi Healthcare LTD (IND)
17.93%
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%
Villa Margherita Srl
Fidia Srl
60%
100%
Casa di cura Sant'Alessandro Srl
Abitare il tempo Srl
54%
100%
Villa dei Pini Srl
90.42%
Sanatrix Srl
99.61%
Sanatrix Gestioni Srl
KOS Servizi
Kos S.p.A 3.68%
KOS Care S.r.l 82.19%
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%
Hss Real Estate S.r.l. 0.43%
Villa Margherita 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 bodies

Board of Directors

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

Board of Statutory Auditors

| | |
|---|---|
| Chairman | Luca Aurelio Guarna |
| Statutory Auditors | Luigi Nani<br>Luigi Macchiorlatti Vignat |
| Substitute Statutory Auditors | Sergio Valter Finulli<br>Renato Colavolpe |
| Independent Auditors | KPMG S.p.A. |

## *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 2017, 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 | 3 | **26** |
| Piedmont | 13 | 2 | | 1 | **16** |
| Liguria | 7 | 6 | | | **13** |
| Marche (1) | 5 | 9 | | | **14** |
| Emilia Romagna | 4 | 4 | | 9 | **17** |
| Tuscany | 1 | 3 | | 1 | **5** |
| Veneto | 3 | 1 | | 2 | **6** |
| Trentino | | 1 | | | **1** |
| Lazio | 1 | 1 | | 1 | **3** |
| Campania | | 1 | | | **1** |
| Umbria | | 1 | | | **1** |
| Foreign countries | | | | 18 | **18** |
| **Total** | **51** | **34** | **1** | **35** | **121** |

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, 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 is 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 | Cermenate (CO) | Villa Clarice | 100 | | **100** |
| 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*** | | | **2,226** | **197** | **2,423** |
| 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 | 132 | | **132** |
| ***Total*** | | | **1,268** | **41** | **1,309** |
| Liguria | Botasi (GE) | La Margherita | 25 | | **25** |
| Liguria | Chiavari (GE) | Castagnola | 72 | | **72** |
| Liguria | Favale (GE) | Casteldonnino | 30 | | **30** |
| Liguria | Genoa | 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 | 90 | | **90** |
| Emilia Romagna | Modena | Ducale 2/3 | 114 | | **114** |
| Emilia Romagna | Bagnolo in Piano (RE) | Bagnolo | 80 | | **80** |
| Emilia Romagna | Monteveglio (BO) | Villa dei Ciliegi | 70 | | **70** |
| ***Total*** | | | **354** | **-** | **354** |
| 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** |
| Marche | San Benedetto del Tronto (AP) | San Giuseppe | 95 | | **95** |
| ***Total*** | | | **453** | **-** | **453** |
| Lazio | Rome | Parco di Veio | 118 | | **118** |
| ***Total*** | | | **118** | **-** | **118** |
| ***Total*** | | | **5,360** | **254** | **5,614** |

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 |
| Emilia Romagna | Bologna | Casa Olga | 33 |
| Tuscany | Lucca | Ville di Nozzano* | 40 |
| Tuscany | Camaiore (LU) | Villamare* | 10 |
| Tuscany | Florence | Villa dei Pini | 75 |
| Marche | Maiolati Spontini (AN) | Villa Jolanda | 74 |
| Marche | Serrapetrona (MC) | Beata Corte | 30 |
| Lazio | Rome | S. Alessandro | 60 |
| **Total** | | | **720** |

* 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 | 30 | | | **30** |
| 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 | Outpatient clinic | | | | |
| Marche | Camerino (MC) | Outpatient clinic | | | | |
| Marche | Civitanova Marche (MC) | Outpatient clinic | | | | |
| Marche | Fabriano (AN) | Outpatient clinic | | | | |
| Marche | Filottrano (AN) | Outpatient clinic | | | | |
| Marche | Jesi (AN) | Outpatient clinic | | | | |
| Marche | Macerata | Outpatient clinic | | | | |
| Marche | Matelica (MC) | Outpatient clinic | | | | |
| Marche | San Severino (MC) | Outpatient clinic | | | | |
| Marche | San Benedetto T. (AP) | Outpatient clinic | | | | |
| Marche | Tolentino (MC) | Outpatient clinic | | | | |
| Marche | Porto Potenza Picena (MC) | Outpatient clinic | | | | |
| Marche | Jesi (AN) | Outpatient clinic | | | | |
| Marche | Civitanova Marche (MC) | Outpatient clinic | | | | |
| Marche | Pesaro | Outpatient clinic | | | | |
| **Total** | | | **1,448** | **147** | **105** | **1,700** |

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 2018, 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 that 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 five NHS-accredited public clinics, at two NHS accredited private clinics owned by it (through subsidiary Elsida S.r.l.) 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 36 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.

| Region | Municipality | Hospital/Structure |
|---|---|---|
| **Italy:** | | |
| Veneto | Mestre | Mestre new hospital |
| Veneto | Castelfranco Veneto | Castelfranco Veneto hospital |
| Emilia Romagna | Bologna | Toniolo nursing homes |
| Lazio | Rome | Gemelli U.C.S.C. hospital |
| Lombardy | Brescia | Spedali Civili di Brescia |
| Lombardy | Milan | Pio X nursing homes |
| Lombardy | Suzzara (MN) | Ospedale di Suzzara |
| Piedmont | Alessandria | San Biagio hospital |
| Emilia Romagna | Bologna | 5 accredited public health centres |
| Emilia Romagna | San Giovanni Persiceto (BO) | 1 accredited private health centre |
| Emilia Romagna | Anzola Emilia (BO) | 1 accredited private health centre |
| 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.

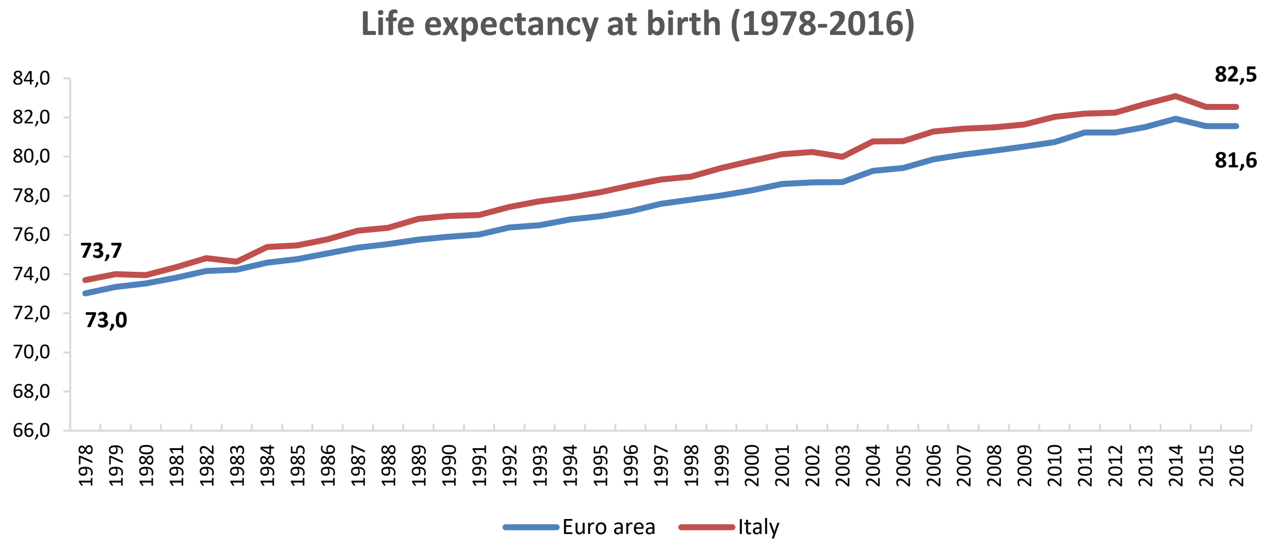
***Overview of the healthcare sector***

The Italian National Health Service (NHS) celebrated its 40th anniversary in 2018. The establishment of the NHS through Law 833 of 1978 represented a new era for Italian citizens as access to healthcare became universal, irrespective of employment status. Before the NHS was founded, the Italian healthcare system was based on a form of social security / insurance cover whereby the right to healthcare was strictly linked to work status and was not considered a right of all citizens in the true sense of the term.
After this initial ground-breaking change, two important laws were issued in the 1990s to complete the process commenced by Law 833: Law 502/92 and Law 229/1999, the so-called Bindi Reform. The guiding principles of Law 502 were based on a more business-like approach to healthcare, a market approach and institutional simplification which gave the regions a more central role.
The third NHS reform, the Bindi Reform, was the last major legislative step which revolutionised the identity of our healthcare system, completing the organisation and rationalisation process required to achieve an efficient and effective health service. Law 229/99 also redefined the principles that guarantee the right to healthcare – healthcare planning and the LEAs i.e. Standard, Essential Care Levels.
The first decade of the new millennium saw the full regionalisation of the NHS and the consolidation of management systems and this has continued into the last decade when the issues central to government policy have been:

- public expenditure and its containment
- constant increases in private expenditure and doubts over the sustainability of the NHS
- regional autonomy which has ceased to exist for regions subject to Turnaround Plans which were supposed to reverse deficits
- further regional centralisation through strengthening of the tools of regional governments, a reduction in the number of healthcare authorities and the centralisation of administrative and healthcare functions
- the relaunch on a national scale of issues like chronic illness and responsibility for care, standards for the hospital network, care homes, intermediate treatment and assessment systems that have been implemented in greatly different ways from one region to another.

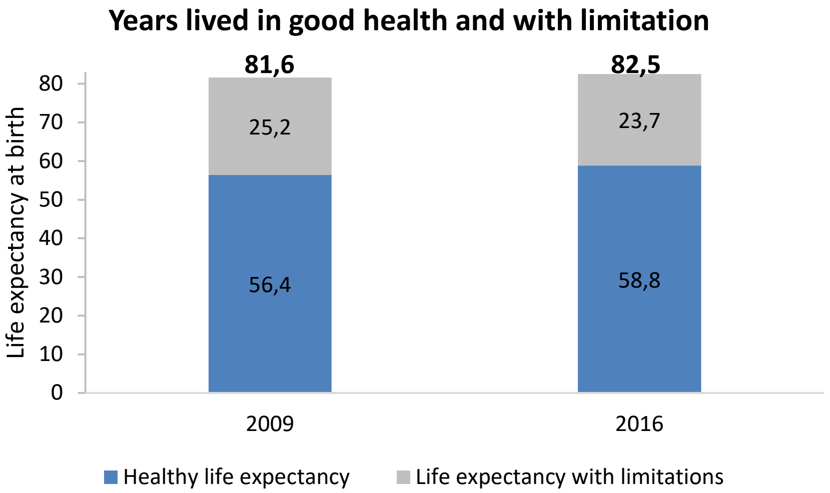
Between 1978 and now, the healthcare profile of people in Italy has changed radically. Service demands and requirements have changed, setting new challenges for the governance structure and the sustainability of the system.
Analysis of the main demographic variables on a national level offers a fairly consolidated picture with certain clear trends evident over the last forty years: constant population ageing, low birth rates and population stabilisation despite migration factors.

In Italy, life expectancy at birth has increased by 9.5 years to reach an average 82.5 years (80.6 years for men and 84.9 years for women).




*Source: World Bank*

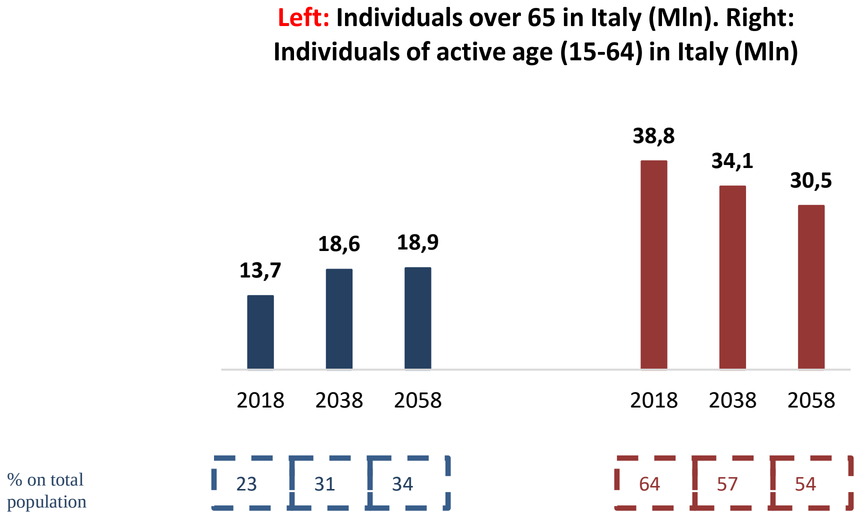
Over the last forty years, the Italian population has gained around 10 years of additional life expectancy thanks to progress in terms of quality of life and healthcare technology that have helped reduce mortality in the population. However, life expectancy alone does not provide a sufficiently detailed picture of the state of health of the population. According to the ISTAT BES 2017 report, the high level of life expectancy in Italy is not accompanied by similar levels of long life in a good state of health, especially compared to other European countries. The Italian figure is around a year below the European average – in line with those of Greece and Slovenia – and well below those of Northern European countries.




*Source: ISTAT, BES 2017 Report*

In Italy, significant differences continue to exist between the North, the Centre and the South of the country. Average life expectancy in Southern region s is still around a year shorter than in Northern reg ions while life expectancy in good health is similarly shorter. This difference is due not only to social and economic factors but also to a level of care – for both acute conditions and long-term conditions – that is lower in quality than in the regions of Northern and Central Italy. This leads to significant inter-regional mobility with the inhabitants of Southern Italy moving to other regions, especially in the North, in search of better care.

Considering future trends, population ageing will continue to change the demographic structure. At present, the over 65s represent 23% of the population while people of an active age account for 84%. Based on ISTAT estimates, by 2058, the over 65s will have increased to represent 34% of the total population.



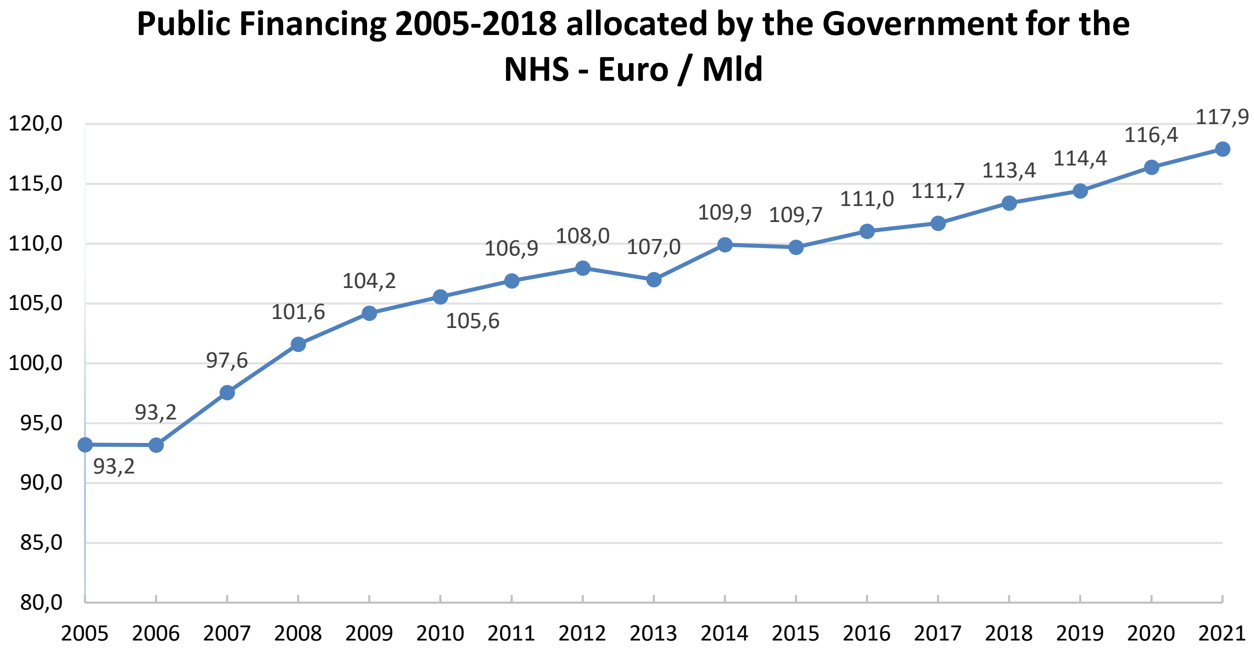

*Source: Meridiano Sanità, 2018 Report*

Demographic changes will produce a significant imbalance between the elderly population and the active population. The old age dependency ratio, which expresses the ratio of the over 65 population to the active population, is considered the index of welfare sustainability. In Italy, this index stands at 34.5%, a particularly high and worrying level, the highest among the EU-14 countries. Moreover, based on Eurostat estimates, the old age dependency ratio is destined to increase further, reaching an average level of 61% in 2060.

Any increase in longevity is accompanied by an increase in non-transmissible chronic diseases (cardiovascular illness, diabetes, neurodegenerative illness, cancer, musculoskeletal disorders, etc.), a rise in co-morbid medical conditions and increased pressure on health systems and social care and assistance as expenditure tends to increase exponentially for older people. This will require a further intensification of public expenditure on social protection aimed at the elderly and disable population, where the most significant component regards expenditure on pensions and on Long Term Care (LTC).

## *Expenditure on healthcare and on Long Term Care (LTC)*

The new Italian Finance Act (Budget) has confirmed funding of € 114.4 billion for the NHS i.e. with no reduction on the prior year estimate. The € 2 billion and € 1.5 billion increases on prior year planned for 2020 and 2021, respectively, are subject to agreement in the State-Regions Conference for the 2019-2021 Healthcare Pact.



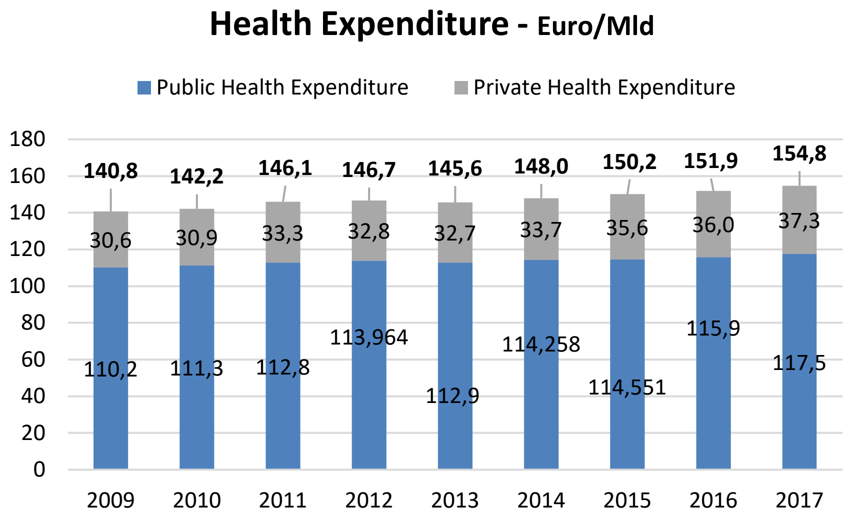

Source: Health Ministry; OASI Report 2018

The aim is to adopt measures that will ensure planning, better quality of care/treatment and cost efficiency. Some of the measures envisaged include changes to the current "ticket" system, an assessment of staffing requirements, the rationalisation of hospital and territorial networks, the implementation of information systems, good planning of the use of accredited private sector operators and the promotion/encouragement of research. These are crucial issues for the future of the NHS. Some of them (like changes to the "ticket" system) have been awaited for years and although it is unlikely that they can be dealt with adequately by the end of January, the Government and the regions will have to make a serious commitment to them if they are to avoid a repeat of the failures of the past.

NHS funding is set aside in advance to ensure the service can be provided. However, current healthcare expenditure represents the total amount of public and private sector resources that a company deploys to sustain its healthcare requirement. For the year 2017, the State's overall funding for NHS expenditure was € 111.7 billion, some € 0.7 billion more than in private year. Current public healthcare expenditure for 2017 amounted to € 117.5 billion, up by 1.3% on 2016. Including other sources of funding, the system had a very small deficit of € 0.2 billion, demonstrating a good balance between spending and funding for the fifth consecutive year.

The change in expenditure in absolute terms cannot, on its own, be an exhaustive indicator for use in assessing the growth and well-being of a national health service. Healthcare expenditure as a percentage of GDP indicates the portion of a country's economy that relates to healthcare services, or the percentage of total expenditure that is allocated to such services.

The increase in public healthcare expenditure was accompanied by a smaller recovery in GDP in percentage terms (+2.1% compared to 2016). In fact, public healthcare expenditure fell from 6.9% of GDP in 2016 to 6.8% in 2017 while total healthcare expenditure (including private expenditure) remained at 9% of GDP, in line with prior year. The year 2017 also saw a significant € 37.3 billion increase in the private sector component of healthcare expenditure (+2.2% compared to 2016).




Source: OASI Report 2018

Private healthcare expenditure comprises the following:

- 34.6% - medical products, mainly pharmaceuticals in the narrow sense;
- 51.5% - out-patient services, mainly relating to dental services;
- 13.6% - hospital services, with around 60% of this expenditure dedicated to long-term care (around € 3.3 billion); therefore, some of this expenditure comes under LTC expenditure, including inpatient services for the elderly and the disabled.

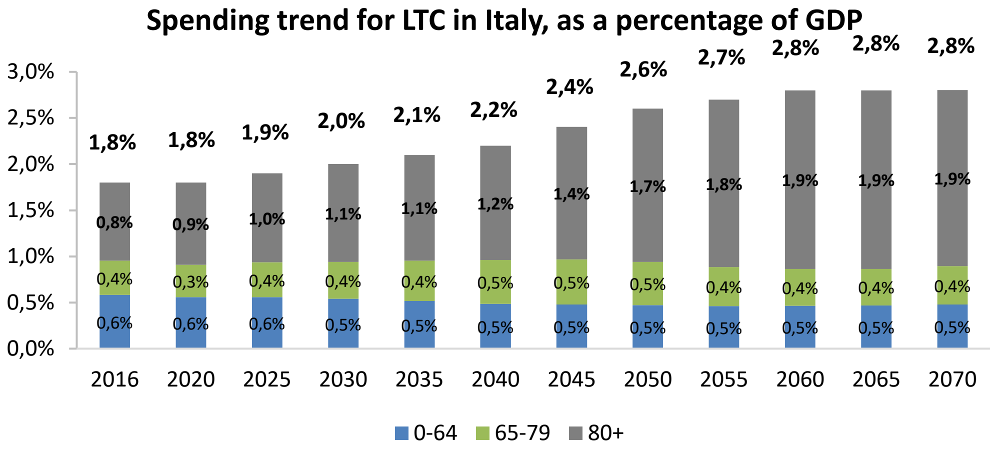
The percentage of healthcare spending dedicated to Long Term Care (including all healthcare services provided to non self-sufficient persons who need constant care) has remained constant in recent years at 0.8% of GDP, for a total amount of € 13.6 billion.
Healthcare is not the only item of expenditure in LTC in Italy. However, it is the one whose amount and type of expenditure is easiest to estimate and monitor, as it relates to healthcare and social care services aimed at those with chronic conditions and in need of long-term residential care. The other components of LTC expenditure are:

- social expenditure of Municipal Authorities, consisting of the cost of personal support services provided to enable people to continue to stay in their own home (€ 630.5 million).
- the percentage of expenditure covered by national funds created by the Ministry for Social Policies and relating to social and socio-healthcare projects (€ 700 million).

Cash payments made for social care related purposes should also be considered:

- Expenditure by INPS (State Pensions and Social Security Institution) on non-pensions related welfare (mainly carer's allowances aimed at all age ranges);
- The funds allocated to social policies by individual regions using their own resources.

There is also private household expenditure on healthcare but it is not easy to estimate its amount as part of this expenditure is funded from resources provided by INPS.
In 2016, total LTC expenditure amounted to 1.8% of GDP (€ 30 billion), of which around two-thirds was on individuals aged 65 or more. Healthcare expenditure and INPS carer's allowances account for almost 90% of total LTC expenditure. The remainder – a little more than 10% - relates to other care services.




*Source: Prepared from MEF figures - Medium/long-term trends for pensions and social/healthcare system in 2017*

Public healthcare expenditure on LTC – 0.8% of GDP in Italy – is still lower than in other European countries (European average of 1.4%) but it is destined to increase in the next 50 years to meet the ever greater need among the population caused by the increased number of elderly people, longer life expectancy and low coverage of the requirement.
In order to determine the number of people who could, potentially, require LTC services, based on 2015 figures, ISTAT estimated the number of non self-sufficient elderly people over 65 years of age (2,857,801) and the number of people with disabilities (708,000).
Some 49.7% (1,421,372 people) of the potential requirement, represented by non self-sufficient elderly people, is in the hands of a social/healthcare or social service; 64% of these elderly people use a social/healthcare service (e.g. a residential nursing home).
In the case of disabled person under the responsibility of the system – 204,176 people – it is not possible to determine precisely the percentage of social/healthcare and social service in the case of residential assistance.
What is clear though is the coverage rate of the requirement considered i.e. the ratio of the number of users under the responsibility of the services and the estimated potential requirement (Oasi Report 2018):

| Target | Estimated potential requirement | Users in hands of services | Coverage rate social/healthcare services | Coverage rate social services |
|---|---|---|---|---|
| Non self-sufficient elderly | 2,857,801 | 1,421,372 | 31.9% | 18.0% |
| Disabled | 708,000 | 204,176 | 28.8% | |

The following breakdown of the types of social/healthcare provided in 2015 regards the 1,421,372 non self-sufficient elderly persons:

– 287,328 (20.2% of the total) use Residential services (nursing homes, etc.…)
– 380,397 (26.7%) use semi-residential services (Integrated Day Centres)
– 753,647 (53.1%) use Domicile-based services

With regard to the social/healthcare services provided, it is worth noting that a little more than half of the non self-sufficient elderly in Italy do not benefit from any form of care service. This may be due to multiple reasons including long waiting lists for admittance to accredited facilities and the cost of the services:
Therefore, these elderly people are cared for by, either

- Carers(mostly employed illegally); or
- Close relatives, who take on the role of informal caregiver; or

- Wholly private residential and semi-residential services

So, considering the context of insufficient healthcare services (lower than the European average), increasingly ageing population and persistent territorial differences, the NHS trends in future years will regard:

- Reorganisation of the healthcare offering, in compliance with the principles of universality and financial sustainability at the heart of the reform of Law 833 of 1978 but with attention to new medium/long-term changes which will see a significant increase in the elderly population, an increase in life expectancy and higher number of years lived not in good health;
- Development of the healthcare and social care services available in Central and Southern Italy where there are greater differences from one area to another and more people move to another region for care/treatment;
- Increase in insurance expenditure as the third pillar of current healthcare expenditure, especially for families who incur an out-of-pocket expense or who do not seek treatment because of a shortage of money;
- Greater integration between hospitals and local areas in order to guarantee continual care, especially in cases where over 65s are admitted multiple times and discharged without being formally placed in hands of local authorities for continued care and assistance;
- Study into a National Plan for taking responsibility for non self-sufficient persons so that objectives and services are agreed and integrated on a national scale, reducing regional differences; development of an electronic database as in the health sector;
- Incentives for innovation technology to make the system more efficient and to support the increasing desire for home care, especially for disabled or elderly people who are not yet wholly non self-sufficient but need some assistance with daily tasks.

*Cancer care and diagnostic services*

In Italy, the main market for Medipass's business, "Fully Managed Services" for private and public sector hospitals has 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 latter 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 Seniors Group in Spain (Andalusia) with 1,300 beds for elderly care and €15 million of revenue in 2018. Meanwhile, it continued its consolidation activities in France and Germany with two new acquisitions of elderly care groups (Omega Group – France; and Schauinsland – Germany).
Still in Spain, in 2018, the French Group Colisee acquired the STS Group (600 beds for elderly care) with the aim of breaking into other countries like its other large, French competitors; the Colisee Group is already present in Italy.
In 2018, all medium/large sized operators in the LTC sector were involved in business development transactions abroad in Germany, the Netherlands, Sweden, Portugal, Spain, Belgium and, outside Europe, in Brazil and China.
This trend is apparent not only in the LTC sector but also in the Acute Care sector. Large hospital groups – including Italian ones – have acquired new groups in Europe and elsewhere e.g. in Russia and the United Arab Emirates.
At the same time, operators are seeking increasingly to diversify their services; out-patient centres, diagnostic services, post-acute care services or home care.
Finally, there is increasing competition in Italy: in addition to the foreign development of some operators, especially hospital groups like the San Donato Group and the Villa Maria Group, smaller care home groups – run by experienced managers and financial or foreign partners – have also grown and are gradually combining with other entities to reach a total size of 4-8 care facilities each.

In the **Cancer Care 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 English Group with the same name) 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.
- **InHealth:** the most important player in Clinical Diagnostic Services in Radiology, Nuclear Medicine and Hemodynamics
- **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.

At present, 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 of the Group

The Group is organised, for internal management reporting and 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 2017, 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 2018 and 2017, the figures at 31 December 2018 are not perfectly comparable with prior year. Therefore, in order to provide a better understanding of the 2018 financial statements and to make them more comparable with the 2017 figures, the most significant transactions that have taken place in the last two reporting periods are reported below.

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 through incorporation 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 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 revenues of around € 9 million.

Clearmedi Healthcare Ltd 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: management of the oncology department for the under the Clearmedi brand; 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 the fifth year.

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.

The main transactions in **2018** were as follows:

**Long Term Care:**

In January 2018, the Group acquired Prora S.r.l., parent company of Ideas S.r.l which operates a residential care facility for non self-sufficient elderly people in San Benedetto del Tronto (AP). It has Marche Region authorisation and accreditation and has 90 residential beds and 20 day centre beds. The two companies were later merged into Kos Care S.r.l. with effect from 1 August 2018.

In February 2018, the Group acquired Casa di Cura S. Alessandro S.r.l., the company which operates a 60-bed facility in Rome which currently has authorisation to provide psychiatric rehabilitation services.

In March 2018, the Group acquired Laboratorio Analisi Chimiche Delta S.r.l. which operates an analysis laboratory in Porto Recanati (MC). The company was later merged into parent company Sanatrix Gestioni S.r.l. with effect from 1 July 2018.

In May 2018, the Group expanded the services it offers in Emilia Romagna when it acquired Ippofin S.r.l., parent company of Villa dei Ciliegi di Monteveglio S.r.l. the company which operates two facilities in Bologna: Villa dei Ciliegi and Casa Olga. The former is a recently constructed residential social and healthcare facility in Monteveglio (Bo) with 70 beds for elderly residents. Meanwhile, Casa Olga is a 33-bed, psychiatric community for elderly patients situated in the Saragozza district of Bologna. The companies were merged into Kos Care S.r.l. with effect from 1 October 2018.

Studio Laboratorio Biemme S.r.l., a company which operates an analysis laboratory in Castelraimondo (MC), was acquired in October 2018.

Villa dei Pini S.r.l., a company which operates a 75-bed facility in Florence, currently authorised to carry out psychiatric rehabilitation, was acquired in December 2018.

**Hospital Services/Management**

**Cancer treatment and diagnostic services**

The launch of new services continued in 2018, especially the new radiotherapy contracts at Policlinico Gemelli in Rome. We also note that Clearmedi Healthcare LTD has signed two new contracts at the following hospitals:

- Patna Hospital in the State of Bihar. The hospital belongs to the Paras Group and the contract provides for the management and operation of the Radiology Department.

- Bliss Hospital in Panchkula, a Paras Group hospital, in the Metropolitan area of Chandigarh, Northern India – two management contracts: Radiology; and Radiotherapy and Nuclear Medicine.

**Suzzara Hospital**

In light of changes introduced by Lombardy Region to the calculation of regional budgets and the additional investment needed to refurbish the Hospital facilities, the Company has made a formal request to change the duration of the concession agreement based on the fact that current economic conditions are different to those that existed when the call for tenders was issued. These changes also include the need for seismic retrofitting at the Hospital following the earthquake that struck in May 2012 – the Company included such works among works yet to be carried out but to be accounted as additional investments not covered by the tender in question and to be performed if the concession were extended.

In November 2017, Lombardy Region replied stating that the decision regarding the extension of the concession is down to the Company itself.

In response to this statement from the region, in November 2017, Suzzara Hospital sent a letter to the *Azienda Socio Sanitaria Territoriale* (the ASST) for the province of Mantua, together with an expert report, in which it highlighted doubts whether the seismic retrofitting project approved by a resolution of the *Azienda Socio Sanitaria Territoriale* of the province of Mantua and sent to the Region would fully comply with all anti-seismic requirements. At the same time, it invited the *Azienda Socio Sanitaria Territoriale* of the Province of Mantua to a meeting to discuss and evaluate the project and to make any appropriate changes. The discussion group with the ASST of the province of Mantua met and worked on the matter but, in the second half of 2018, it concluded that the parties remained faithful to their original positions. Given the impasse in negotiations, Lombardy Region has been asked for its opinion in the matter and, between the end of 2018 and the start of 2019, it took on the matter and intends to give a *super partes* opinion on the seismic retrofit work.

**Corporate Area and shared services**

On 22 February 2018, Kos S.p.A. signed an agreement with Cassa Depositi e Prestiti SpA for a new bank borrowing facility of € 25 million for a period of 8 years, Kos S.p.A. may use this facility solely to invest in medical equipment regarding diagnostic imaging, nuclear medicine and cancer treatment, to be carried out through subsidiary Medipass Srl.

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 2018, it 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 2018:

## KOS GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *(eur/000)* | 31/12/2018 | 31/12/2017 |
|---|---|---|
| NON CURRENT ASSETS | 673,505 | 630,897 |
| CURRENT ASSETS | 181,634 | 161,631 |
| **TOTAL ASSETS** | **855,139** | **792,528** |
| | | |
| EQUITY | 297,647 | 293,553 |
| - NON-CONTROLLING INTERESTS | 6,226 | 6,547 |
| - OWNERS OF THE PARENT | 291,421 | 287,006 |
| NON CURRENT LIABILITIES | 343,524 | 308,857 |
| CURRENT LIABILITIES | 213,968 | 190,118 |
| **TOTAL LIABILITIES AND EQUITY** | **855,139** | **792,528** |
| | | |
| **NET FINANCIAL DEBT** | **( 259,433 )** | **( 237,145 )** |

## KOS GROUP CONSOLIDATED INCOME STATEMENT HIGHLIGHTS

| *(eur/000)* | 2018 | 2017 |
|---|---|---|
| REVENUE | 544,927 | 490,559 |
| EBITDA | 101,809 | 87,798 |
| EBIT | 66,275 | 53,766 |
| PRE-TAX PROFIT | 53,553 | 42,084 |
| **PROFIT FOR THE YEAR INCLUDING NON-CONTROLLING INTERESTS** | **36,316** | **30,692** |
| - PROFIT FOR THE YEAR ATTR. TO NON-CONTROLLING INTERESTS | 1,148 | 1,643 |
| - PROFIT FOR THE YEAR ATTR. TO OWNERS OF THE PARENT | 35,168 | 29,049 |

In 2018, Group revenue totalled € 544,927 thousand against € 490,559 thousand in 2017.

The table below shows the revenue contributed by each SBA:

| *(eur/000)* | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Long term care | 438,873 | 80% | 398,656 | 81% | 40,217 |
| Acute Care | 36,124 | 7% | 36,774 | 7% | ( 650 ) |
| Cancer treatment and diagnostic services | 69,881 | 13% | 55,091 | 11% | 14,790 |
| Other | 49 | 0% | 38 | 0% | 11 |
| **Total** | **544,927** | **100%** | **490,559** | **100%** | **54,357** |

The increase in revenue is mainly due to:

- An increase in the Long term care segment compared to prior year, mainly thanks to acquisitions during 2017 (full-year contribution in 2018) and in 2018. The total effect of € 27,674 thousand mainly regards the integration of the following facilities Parco di Veio (€ 1,404 thousand), Villa dei Ciliegi and Casa Olga (€ 2,038 thousand), San Benedetto (€ 3,527 thousand), Arcugnano and Benevento (€ 18,573 thousand).
- Revenue in the acute care, cancer treatment and diagnostics segment which increased thanks to the launch of new services (impact of € 6,182 thousand) and to the acquisition of Ecomedica S.p.A. at the end of 2017 (impact of € 5,314 thousand).

EBITDA for 2018 amounts to € 101,809 thousand compared to € 87,798 thousand in 2017. The total effect on EBITDA of changes in the scope of consolidation due to the aforementioned acquisitions and business developments amounts to € 6,182 thousand.

In 2018, amortisation, depreciation and writedowns totalled around € 35,534 thousand, up on the € 34,032 thousand in 2017. The increase is partially related to the acquisitions described above and to the opening of new facilities (€ 1,107 thousand) and partially due to the effect of investments made in 2017 which became fully operational in 2018. We also highlight impairment adjustments of € 150 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 | | IC ELIMINATIONS | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | ACUTE CARE | | Cancer treatment and | | COMMON SERVICES | | | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Third party revenue | 438,873 | 398,656 | 36,124 | 36,774 | 69,881 | 55,091 | 49 | 38 | - | - | 544,927 | 490,559 |
| Intercompany revenue | 1,272 | 1,263 | - | 15 | 191 | 52 | 28,652 | 23,515 | ( 30,115 ) | ( 24,845 ) | - | - |
| **Total revenue** | **440,145** | **399,919** | **36,124** | **36,789** | **70,072** | **55,143** | **28,701** | **23,553** | **( 30,115 )** | **( 24,845 )** | **544,927** | **490,559** |
| EBITDA | 82,152 | 71,275 | 2,143 | 2,750 | 20,606 | 17,543 | ( 3,092 ) | ( 3,770 ) | - | - | 101,809 | 87,798 |
| EBIT | 61,474 | 51,549 | ( 91 ) | 355 | 9,584 | 7,059 | ( 4,692 ) | ( 5,197 ) | - | - | 66,275 | 53,766 |
| NET FINANCIAL EXPENSES | | | | | | | | | | | ( 12,722 ) | ( 11,682 ) |
| INCOME TAXES | | | | | | | | | | | ( 17,237 ) | ( 11,392 ) |
| PROFIT FOR THE YEAR | | | | | | | | | | | 36,316 | 30,692 |
| PROFIT FOR THE YEAR ATTR. TO NON-CONTROLLING INTERESTS | | | | | | | | | | | 1,148 | 1,643 |
| PROFIT FOR THE YEAR ATTR. TO OWNERS OF THE PARENT | | | | | | | | | | | 35,168 | 29,049 |

| SBA | LONG TERM CARE | | HOSPITAL MANAGEMENT | | | | CORPORATE AND OTHER | | IC ELIMINATIONS | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | LONG TERM CARE | | ACUTE CARE | | Cancer treatment and | | COMMON SERVICES | | | | | |
| **FINANCIAL POSITION DATA** | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Property, plant and equipment* | 286,174 | 266,265 | 6,162 | 7,310 | 60,653 | 53,877 | 568 | 352 | | | 353,557 | 327,804 |
| Intangible assets | 252,747 | 237,957 | 234 | 273 | 37,135 | 37,870 | 1,021 | 580 | | | 291,137 | 276,680 |
| Other non current assets | 2,315 | 2,316 | 36 | 36 | 5 | 8 | 26,455 | 24,053 | | | 28,811 | 26,413 |
| Assets held for sale | | | | | | | | | | | 0 | 0 |
| Current assets | 73,803 | 75,512 | 641 | 996 | 30,255 | 26,692 | 76,935 | 58,431 | | | 181,634 | 161,631 |
| **Total assets** | **615,039** | **582,050** | **7,073** | **8,615** | **128,048** | **118,447** | **104,979** | **83,416** | **0** | | **855,139** | **792,528** |
| | | | | | | | | | | | | |
| Equity | | | | | | | 297,646 | 293,553 | | | 297,646 | 293,553 |
| Non current liabilities | 21,215 | 25,204 | 553 | 543 | 2,970 | 2,020 | 318,786 | 281,090 | | | 343,524 | 308,857 |
| Liabilities held for sale | | | | | | | | | | | 0 | 0 |
| Current liabilities | 118,378 | 107,773 | 11,771 | 12,150 | 19,964 | 20,284 | 63,856 | 49,911 | | | 213,969 | 190,118 |
| **Total liabilities** | **139,593** | **132,977** | **12,324** | **12,693** | **22,934** | **22,304** | **680,288** | **624,554** | **0** | | **855,139** | **792,528** |

* Including investment property

### Long term care

Third party revenue for the year ended 31 December 2018 amount to € 438,873 thousand (+10.1% compared to € 398,656 thousand in 2017). EBITDA amounts to € 82,152 thousand, up by 15.3% on € 71,275 thousand in 2017. As a percentage of revenues, EBITDA increased slightly from 17.9% in 2017 to 18.7% in 2018 mainly because of the full level of operations for Nursing Homes that opened in 2017.

### Hospital management/services

In the Hospital Management SBA, the KOS Group ended the year with revenue totalling € 106,005 thousand (€ 91,865 thousand in 2017) including € 36,124 thousand in the acute care operating segment and € 69,881 thousand in the cancer treatment and diagnosis sector. EBITDA amounted to € 22,749 thousand (+12.1% on € 20,293 thousand in 2017).

Consolidated EBIT amounted to € 66,275 thousand against € 53,766 thousand in 2017. The increase is mainly due to the full-year contribution of acquisitions made in 2017 and to the new acquisitions made in 2018.

In 2018, net financial expenses totalled € 12,722 thousand against € 11,682 thousand in 2017. This caption includes adjustments of € 32 thousand to financial assets (€ 231 thousand in 2017) and dividends received of € 32 thousand (€ 33 thousand in 2017).

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 € 17,237 thousand, more in absolute terms than in 2017. They accounted for 32% of the pre-tax profit, an increase compared to 27% in 2017. 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 2018, the Group had 7,006 employees (6,421 employees at 31 December 2017).

Capex for the year includes ordinary capex and capex to comply with laws and regulations (€ 20 million) and capex on business development/expansion (€ 26 million). Details of the business development capex during 2018 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 Novara, on which the Group plans to build two nursing homes once planning permission has been obtained;
- € 4.6 million refers to construction of a 100-bed care home in Campofilone – construction work commenced during 2018;
- € 16 million relates to new equipment installed at client hospital facilities whose diagnostic services have been outsourced to subsidiaries Medipass S.r.l. and ClearMedi Health Care Ltd;
- € 3.5 million refers to construction of two nursing homes in Vimercate and Grosseto, each with 120 beds;
- € 1.7 million refers to development work at existing facilities and to new constructions where work has just begun;

On a consolidated level, intangible assets have increased mainly because of the acquisitions made in 2018: Casa di cura Sant'Alessandro S.r.l. (€ 3,675 thousand), Prora S.r.l. and Ideas S.r.l., subsequently merged into KOS Care S.r.l. (€ 4,583 thousand), Laboratorio Delta S.r.l. subsequently merged into Sanatrix Gestioni S.r.l. (€ 698 thousand), Ippofin S.r.l. and Villa dei Ciliegi S.r.l. (subsequently merged into KOS CARE S.r.l. –( € 1,890 thousand) and Villa dei Pini S.r.l. (€ 3,159 thousand), as only partially offset by the exchange rate effects of translation into Euro of financial statements prepared in other currencies (€ 47 thousand) and by impairment adjustments to goodwill relating to companies Medipass Leeds and Medipass Belfast (€ 610 thousand).

Trade working capital amounted to € 27,243 thousand at 31 December 2018, lower than the figure of € 31,235 thousand at 31 December 2017. The decrease is mainly due to higher volumes and to the pattern of collections and payments at the end of the two periods.

The Group's net financial debt amounted to € 259 million at 31 December 2018 against € 237 million at 31 December 2017. The increase of around € 22 million in net financial debt is mainly due to: (i) the distribution of reserves of around € 29 million; (ii) acquisitions during the year of around € 22.2 million; (iii) the positive change in net working capital of € 6.6 million and cash flows from operating activities.

The Group's financial position includes: (i) cash and cash equivalents of € 55.3 million; (ii) financial assets arising on the measurement of derivatives and non-recourse factoring of € 16.7 million; (iii) short-term borrowing (advances on invoices and bank overdraft) of € 10.9 million while total available short term credit facilities amount to € 70.8 million (i.e. there is headroom of € 59.9 million); (iv) medium/long term debt of € 318.3 million. The Group also has the possibility of using additional medium/long term lines of credit totalling € 135.1 million.

The following table shows the main lines of credit with details of their availability at 31 December 2018:

| | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| (eur/million) | Total | Utilized | Available | Total | Utilized | Available |
| Short-term Lines ("Uncommitted"/at sight) | 70.8 | 10.9 | 59.9 | 56.6 | 3.3 | 53.3 |
| Long-term ("Committed"/contractualized) | 453.1 | 318.0 | 135.1 | 434.9 | 283.3 | 151.6 |
| **Total** | 523.9 | 328.9 | 195.0 | 491.5 | 286.6 | 204.9 |

Details of the net financial debt at 31 December 2018 are shown below:

| *(eur/000)* | 31/12/2018 | 31/12/2017 |
|---|---|---|
| (A) Cash and cash equivalents | 55,334 | 32,820 |
| (B) Other cash equivalents | - | - |
| **(C) Liquidity (A) + (B)** | **55,334** | **32,820** |
| (D) Securities, derivative financial instruments and other financial assets | 14,673 | 17,401 |
| **(E) Total current financial assets (C) + (D)** | **70,007** | **50,221** |
| (F) Payables to banks for account overdrafts | 10,892 | 3,330 |
| (G) Payables to banks for collateral loans | 7,514 | 7,171 |
| (H) Payables to banks for loans | 1,058 | 1,312 |
| (I) Bond loans | 569 | 675 |
| (J) Payables for finance leases | 10,863 | 10,863 |
| (K) Payables to other financing entities | 189 | 190 |
| (L) Derivative financial instruments | 543 | 718 |
| **(M) Current financial debt (F) + (G) + (H) + (I) + (J) + (K) + (L)** | **31,628** | **24,259** |
| **(N) Net current financial position (M) - (E)** | **( 38,379 )** | **( 25,962 )** |
| (O) Payables to banks for collateral loans | 36,903 | 37,213 |
| (P) Payables to banks for loans | 108,837 | 64,758 |
| (Q) Bond loans | 98,502 | 98,308 |
| (R) Payables for finance leases | 52,616 | 61,685 |
| (S) Payables to other financing entities | 954 | 1,143 |
| **(T) Non current financial debt (O) + (P) + (Q) + (R) + (S)** | **297,812** | **263,107** |
| **(U) Net financial debt (N) + (T)** | **259,433** | **237,145** |

At 31 December 2018, parent company KOS S.p.A.’s net financial debt was € 81 million, excluding receivables/payables with subsidiaries of € 64.6 million.

The reporting period ended 31 December 2018 resulted in a profit for the year attributable to the owners of the parent of € 35,168 thousand and a a profit for the year attributable to non-controlling interests of €1,148 thousand, resulting in a total profit for the year of € 36,316 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 2018 was around € 65.1 million (€ 70.8 million at 31 December 2017); the mark-to-market value of these contracts was negative by around € 0.5 million (negative by € 0.7 million at 31 December 2017) and is included in the consolidated net financial debt.

In August 2017, KOS S.p.A. 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 rates 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.

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 2018.

| Company | Enter date | Time | *Pay* | *Cap* | *Floor* | *Receive/Index* | Notional | | *Fair Value* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 31/12/18 | 31/12/17 | 31/12/18 | 31/12/17 |
| Kos Care Srl | 2013 | Quarterly | 1.740% | | | Euribor 3M | 6,465 | 6,805 | (147) | (292) |
| Kos Care Srl | 2015 | Quarterly | 0.150% | | | Euribor 3M | 2,571 | 3,214 | (9) | (15) |
| Kos Care Srl | 2014 | Quarterly | 0.298% | | | Euribor 3M | 3,750 | 4,750 | (16) | (35) |
| Kos Care Srl | 2015 | Quarterly | 0.206% | | | Euribor 3M | 4,696 | 4,850 | (33) | (27) |
| Kos Care Srl | 2015 | Quarterly | 0.390% | | | Euribor 3M | 3,947 | 4,579 | (33) | (43) |
| Kos SpA | 2017 | Half-year | 0.385% | | | Euribor 6M | 13,000 | 13,000 | (105) | (78) |
| Kos SpA | 2017 | Half-year | 0.370% | | | Euribor 6M | 13,000 | 13,000 | (101) | (72) |
| ***Total Interest Rate Swap*** | | | | | | | **47,429** | **50,198** | **(444)** | **(562)** |
| Medipass Srl | 2011 | Quarterly | | 3.25% | | Euribor 3M | - | 111 | - | - |
| Kos Care Srl | 2014 FWD Start 2017 | Monthly | | 1.50% | | Monthly avarage Euribor 1M | 3,332 | 3,748 | 1 | 6 |
| Kos Care Srl | 2014 FWD Start 2016 | Monthly | | 1.50% | | Monthly avarage Euribor 1M | 2,829 | 3,181 | - | 2 |
| Kos Care Srl | 2014 FWD Start 2016 | Monthly | | 1.50% | | Euribor 3 M | 3,620 | 3,948 | - | 3 |
| ***Total Interest Rate Cap*** | | | | | | | **9,781** | **10,988** | **1** | **11** |
| ***Derivative instruments effective*** | | | | | | | **57,210** | **64,759** | **(443)** | **(572)** |
| Sanatrix Gestioni Srl | Cap - 2013 | Monthly | | 2.50% | | Euribor 6M | 2,078 | 2,542 | - | - |
| HSS Real Estate Srl | IRS - 2013 | Quarterly | 2.04% | | | Euribor 3M | 2,252 | 3,150 | (71) | (133) |
| Ecomedica Srl | IRS - 2013 | Monthly | 0.900% | | | Euribor 1M | - | 83 | - | - |
| Ecomedica Srl | IRS - 2015 | Monthly | 0.200% | | | Euribor 1M | 79 | 181 | - | (1) |
| Ecomedica Srl | IRS - 2016 | Monthly | -0.180% | | | Euribor 1M | 28 | 112 | - | - |
| Kos Care Srl | IRS - 2015 | Quarterly | 0.220% | | | Euribor 3M | 3,457 | 3,573 | (26) | (21) |
| ***Derivative instruments not effective*** | | | | | | | **7,894** | **9,641** | **(97)** | **(155)** |
| **Total** | | | | | | | **65,104** | **70,827** | **(540)** | **(706)** |

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 IFRS 9 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 recognised 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 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 Care 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.).
- Continuation 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 2019, 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.

To that end, several mergers with recently acquired companies were completed in 2018 while further mergers are planned for 2019.

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 Suzzara Hospital, the year 2019 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 2018, 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 62% of KOS Group consolidated revenues in the year ended 31 December 2018 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 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 completed this activity in 2018.

*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 financial position, and results 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/Care Home sector where more than half of revenues come from the persons resident in the Care 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 loss allowance 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.

In its capacity as holding company, CIR S.p.A. is substantially exposed to the same risks and uncertainties as described above with reference to the Group as a whole.

## 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 2018, the Group had 7,006 employees against 6,421 employees at 31 December 2017. 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/Ecomedica:
- 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 CIMOP 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 CIMOP medical personnel employed in care homes, IRCCS, hospitals and rehabilitation centres;
- 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.

Villa Margherita S.r.l.
- CCNL for non-medical employees of healthcare facilities related to AIOP;
- CCNL for CIMOP medical personnel employed in nursing homes, IRCCS, hospitals and rehabilitation centres.

## Legislative Decree 231, privacy and security

Some time ago, the various Group companies 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 Models have been made, arriving at the current versions which were approved by the Boards of Directors of the various companies in February 2019. The updated Organisation Models reflect legislative changes with an impact on the Legislative Decree 231/01 perimeter up until their data of approval.

The Supervisory Boards work closely together and with the Group departments that operate in sensitive areas. They cooperate with the constant objective of improving overall governance. Moreover, the ongoing interaction between the Parent Company Supervisory Board and the Supervisory Boards of the operating companies ensures that the proper supervision is carried out on a Group level.

In 2018, 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.

Regular meetings area also held with the companies' other governance bodies, in particular the Boards of Statutory Auditors and the External Auditors, in order to update one another and share information. The parent company

Supervisory Board also meets with the Risk and Control Committee, always striving with it for the goal of better overall governance.

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.
Since the European General Data Protection Regulation (GDPR) came into force, the various companies have been taking the necessary action to guarantee a new approach to data protection issues. Data Protection Officers (DPO) have been designated, Records of Processing have been set up and the main procedures in the area have been issued. Information notices for data subjects have also been distributed together with the necessary letters for the various suppliers. Training began in 2018 and will be stepped up in 2019 with classroom-based sessions and on-line training modules.

## General information on the Parent Company

Parent company KOS S.p.A. recognised negative EBITDA of € 4,398 thousand in 2018 compared to negative EBITDA of € 4,576 thousand for 2017. The company recognised depreciation, amortisation and impairment losses totalling around € 405 thousand during the year, in line with the € 415 thousand recognised in 2017.

EBIT was negative by € 4,804 thousand compared to a negative figure of € 4,992 thousand in prior year.

Net financial expenses for the year totalled € 770 thousand compared to net financial expenses of € 931 thousand in 2017.

Adjustments to financial assets totalling € 1,073 thousand were made in 2018 including the investment in subsidiary Ospedale di Suzzara S.p.A. (€480 thousand) and application of IFRS9 (€593 thousand) which measures financial receivables and guarantees given.

Income taxes amounted to € 1,376 thousand compared to € 1,297 thousand in 2017. Taxation stood at 21% of pre-tax profit compared to 22% in 2017. In 2018, the presence of permanently not deductible expenses for tax purposes again increased the effective tax rate compared to the theoretical rate. These taxes flow into the CIR S.p.A. Group tax consolidation scheme.

At 31 December 2018, the company had 21 employees, an increase of two employee compared to 31 December 2017.

A net loss of € 5,270 thousand is recorded for the year ended 31 December 2018 compared to a net loss of € 4,625 thousand in 2017.

Moving on to the Statement of Financial Position, equity investments amounted to € 164,368 thousand against € 164,1714 thousand at 31 December 2017.

The net financial debt at 31 December 2018 is analysed below:

| *(eur/000)* | 31/12/18 | 31/12/17 |
|---|---|---|
| (A) Cash and cash equivalents | 42,241 | 24,244 |
| **(C) Liquidity (A)** | **42,241** | **24,244** |
| (D1) Financial receivables from subsidiaries | 193,299 | 155,760 |
| **(E) Total current financial assets (C) + (D)** | **235,540** | **180,004** |
| (G) Payables to banks for collateral loans | 603 | 600 |
| (H) Payables to banks for loans | 159 | 139 |
| (H1) Bond loans | 569 | 675 |
| (J) Derivatives instruments | 206 | 150 |
| (K) Financial payables to subsidiaries | 128,690 | 78,273 |
| **(L) Current financial debt (F) + (G) + (H) + (H1) + (J) + (K)** | **130,227** | **79,837** |
| **(M) Net current financial debt (L) - (E)** | **( 105,313 )** | **( 100,167 )** |
| (P) Payables to banks for collateral loans | 2,294 | 2,897 |
| (Q) Payables to banks for loans | 86,051 | 44,942 |
| (Q1) Bond loans | 98,502 | 98,308 |
| **(S) Non current financial debt (P) + (Q) + (Q1)** | **186,847** | **146,147** |
| **(T) Net financial debt (M) + (S)** | **81,534** | **45,980** |

The net financial debt of parent company KOS S.p.A. was € 81,534 thousand compared to € 45,980 thousand at 31 December 2017. At 31 December 2018, the net financial debt included cash and cash equivalents of € 42,241 thousand, receivables from subsidiaries totalling € 193,299 thousand, € 128,690 thousand of payables to subsidiaries and bank loans and borrowings of € 188,178 thousand. The € 35,554 thousand increase in net debt is mainly due to the distribution of € 29,004 thousand from the Share Premium Reserve and to cash flows used in operating activities.

## Management and coordination activities

Pursuant to Art. 2497 bis of the Italian Civil Code, we inform you that the Company is subject to management and co-ordination by the parent company CIR S.p.A.. Said company's relations with the Company are limited to co-ordination and the recharge of service costs and participation in the CIR Group tax consolidation scheme.

## Research and development activities

Scientific research and development, conducted mainly in the Long Term Care SBA, is coordinated within the Group by a Scientific Committee. It develops original protocols, encourages and facilitates projects organised autonomously by the various healthcare facilities and takes part in projects organised by Universities and Research Institutes.

## Treasury shares

Kos S.p.A. does not hold any treasury shares or shares/quotas in parent companies.

## Reconciliation between Parent's separate Financial Statements and the Group's Consolidated Financial Statements

| (eur/000) | 2018 Net equity | 2018 Net Income | 2017 Net equity | 2017 Net Income |
|---|---|---|---|---|
| **EQUITY AND PARENT COMPANY PROFIT (LOSS) FOR THE YEAR** | **90,691** | **(5,270)** | **127,178** | **(4,625)** |
| Equity and profit of consolidated Companies | 415,047 | 41,873 | 375,679 | 36,933 |
| Reversal of writedown of consolidated Companies | 8,138 | | 7,658 | |
| Derecognition of carrying amount of consolidated equity investments and goodwill | (214,205) | | (214,367) | |
| Fair value of derivatives | (443) | | (559) | |
| Dividends elimination | | (855) | | |
| Other | (1,581) | 568 | (2,036) | (1,616) |
| **TOTAL EQUITY AND PROFIT FOR THE YEAR** | **297,647** | **36,316** | **293,553** | **30,692** |
| of which attributable to non-controlling interests | (6,226) | 1,148 | (6,547) | 1,643 |
| **EQUITY AND PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT** | **291,421** | **35,168** | **287,006** | **29,049** |

## Significant events after the reporting date

There were no significant events after the reporting date.

## 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 on an arm's length basis, considering the nature of the goods and services supplied.

The KOS Group's related party transactions mainly regard:

- financial relations;
- relations under contracts for services;
- trade/commercial relations;
- relations under the CIR Group national tax consolidation scheme.

Further details of related party transactions are provided in the Notes to the Consolidated Financial Statements.

## List of secondary business locations

Pursuant to Article 2428(4) of the Italian Civil Code, we provide below a list of all of the Company's business locations at 31 December 2018:
Registered Office: Via Ciovassino, 1 - 20121 Milan
Operating Head Office: Via Durini, 9 - 20122 Milan

Milan, 22 February 2019

*FOR THE BOARD OF DIRECTORS*

The Chairman

Carlo Michelini

# Consolidated income statement

| (eur/000) | Notes | 2018 | 2017 |
|---|---|---|---|
| REVENUE | 4 | 544,927 | 490,559 |
| PURCHASE OF GOODS | 5 | ( 39,840 ) | ( 35,454 ) |
| SERVICES | 6 | ( 187,011 ) | ( 173,197 ) |
| PERSONNEL EXPENSE | 7 | ( 200,933 ) | ( 181,999 ) |
| OTHER OPERATING INCOME | 8 | 4,866 | 6,449 |
| OTHER OPERATING COSTS | 9 | ( 20,152 ) | ( 18,480 ) |
| ADJUSTMENTS TO EQUITY-ACCOUNTED INVESTEES | 18 | ( 48 ) | ( 80 ) |
| **GROSS OPERATING PROFIT** | | **101,809** | **87,798** |
| AMORTIZATION, DEPRECIATION, IMPAIRMENT LOSSES AND PROVISIONS | 10 | ( 35,534 ) | ( 34,032 ) |
| **OPERATING PROFIT** | | **66,275** | **53,766** |
| FINANCIAL INCOME | 11 | 386 | 1,183 |
| FINANCIAL EXPENSES | 12 | ( 13,108 ) | ( 12,667 ) |
| DIVIDENDS | 11 | 32 | 33 |
| ADJUSTMENTS TO FINANCIAL ASSETS | 13 | ( 32 ) | ( 231 ) |
| **PRE-TAX PROFIT** | | **53,553** | **42,084** |
| INCOME TAXES | 14 | ( 17,237 ) | ( 11,392 ) |
| **PROFIT FOR THE YEAR INCLUDING NON-CONTROLLING INTERESTS** | | **36,316** | **30,692** |
| PROFIT FOR THE YEAR ATTR. TO NON-CONTROLLING INTERESTS | | 1,148 | 1,643 |
| **PROFIT FOR THE YEAR ATTR. TO OWNERS OF THE PARENT** | | **35,168** | **29,049** |
| BASIC EARNINGS PER SHARE | 39 | 0.397 | 0.328 |
| DILUTED EARNINGS PER SHARE | 39 | 0.396 | 0.328 |

# Consolidated statement of comprehensive income

| (eur/000) | 2018 | 2017 |
|---|---|---|
| **PROFIT FOR THE YEAR** | **36,316** | **30,692** |
| | | |
| ***Items that will never be reclassified to profit or loss:*** | | |
| Net actuarial gains | 680 | ( 133 ) |
| Income taxes on net actuarial gains | ( 163 ) | 32 |
| | | |
| Translation difference | ( 157 ) | ( 202 ) |
| | | |
| ***Items that will be reclassified to profit or loss:*** | | |
| Net gains on cash flow hedges | 153 | 49 |
| Income taxes on net gains on cash flow hedges | ( 37 ) | ( 12 ) |
| | | |
| **TOTAL COMPREHENSIVE INCOME** | **36,792** | **30,426** |
| | | |
| Owners of the parent | 35,637 | 28,794 |
| | | |
| Non-controlling interests | 1,155 | 1,632 |

# Consolidated statement of financial position

| *(eur/000)* | Notes | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **NON CURRENT ASSETS** | | **673,505** | **630,897** |
| INTANGIBLE ASSETS | 15 | 291,137 | 276,680 |
| PROPERTY, PLANT AND EQUIPMENT | 16 | 349,040 | 323,113 |
| INVESTMENT PROPERTY | 17 | 4,517 | 4,691 |
| EQUITY-ACCOUNTED INVESTEES | 18 | 808 | 856 |
| OTHER EQUITY INVESTMENTS | 18 | 2,235 | 1,813 |
| OTHER ASSETS | 19 | 4,393 | 3,126 |
| DEFERRED TAX ASSETS | 20 | 21,375 | 20,618 |
| **CURRENT ASSETS** | | **181,634** | **161,631** |
| INVENTORIES | 21 | 3,634 | 3,358 |
| RECEIVABLES FROM PARENT COMPANY | 22 | 1,574 | 1,392 |
| TRADE RECEIVABLES | 23 | 96,885 | 96,724 |
| OTHER ASSETS | 24 | 9,533 | 9,936 |
| FINANCIAL ASSETS | 25 | 14,674 | 17,049 |
| SECURITIES | 26 | - | 352 |
| CASH AND CASH EQUIVALENTS | 26 | 55,334 | 32,820 |
| **ASSETS HELD FOR SALE** | 35 | - | - |
| **TOTAL ASSETS** | | **855,139** | **792,528** |
| **LIABILITIES AND EQUITY** | | | |
| **EQUITY** | 27 | **297,647** | **293,553** |
| SHARE CAPITAL | | 8,848 | 8,848 |
| RESERVES | | 87,934 | 119,477 |
| RETAINED EARNINGS | | 194,639 | 158,681 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | | **291,421** | **287,006** |
| EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS | | 6,226 | 6,547 |
| **NON-CURRENT LIABILITIES** | | **343,524** | **308,857** |
| BOND LOANS | 28 | 98,502 | 98,308 |
| OTHER LOANS AND BORROWINGS | 28 | 199,310 | 164,799 |
| OTHER LIABILITIES | 34 | 101 | 98 |
| DEFERRED TAX LIABILITIES | 29 | 16,244 | 14,406 |
| PERSONNEL PROVISIONS | 30 | 25,012 | 24,774 |
| PROVISIONS FOR RISKS AND CHARGES | 31 | 4,355 | 6,472 |
| **CURRENT LIABILITIES** | | **213,968** | **190,118** |
| BANK OVERDRAFTS | 28 | 10,892 | 3,330 |
| BOND LOANS | 28 | 569 | 675 |
| OTHER LOANS AND BORROWINGS | 28 | 20,167 | 20,254 |
| PAYABLES TO PARENT COMPANY | 32 | 8,451 | 5,869 |
| TRADE PAYABLES | 33 | 73,275 | 68,847 |
| OTHER LIABILITIES | 34 | 53,796 | 52,306 |
| PROVISIONS FOR RISKS AND CHARGES | 31 | 46,818 | 38,837 |
| **LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE** | 35 | - | - |
| **TOTAL LIABILITIES AND EQUITY** | | **855,139** | **792,528** |

# Consolidated statement of cash flows

| *(eur/000)* | 2018 | 2017 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| PROFIT FOR THE YEAR | 36,316 | 30,692 |
| | | |
| ADJUSTMENTS: | | |
| AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES | 31,905 | 29,629 |
| ACCRUAL TO PROVISIONS FOR PERSONNEL, NET OF UTILISATIONS AND STOCK OPTIONS | 1,139 | 2,547 |
| ACCRUAL TO PROVISIONS FOR RISKS AND CHARGES, NET OF UTILISATIONS | 5,864 | 6,832 |
| CHANGE IN NET WORKING CAPITAL, NET OF ACQUISITIONS | 5,106 | (4,764) |
| CHANGES IN OTHER CURRENT ASSETS/LIABILITIES, NET OF ACQUISITIONS | 589 | 3,469 |
| OTHER CHANGES IN NON-CURRENT ASSETS/LIABILITIES, NET OF ACQUISITIONS | (183) | (6,020) |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **80,736** | **62,385** |
| *of which:* | | |
| interest paid (collected) | 9,442 | 8,183 |
| income taxes paid (collected) | 13,110 | 16,355 |
| | | |
| **INVESTING ACTIVITIES** | | |
| (PURCHASE)/SALE OF NON-CURRENT ASSETS | (47,156) | (24,126) |
| PURCHASE OF ASSETS, NET OF BANK LOANS AND BORROWINGS | (22,117) | (42,516) |
| **CASH FLOW USED IN INVESTING ACTIVITIES** | **(69,273)** | **(66,642)** |
| | | |
| **FINANCING ACTIVITIES** | | |
| PROCEEDS FROM CAPITAL INCREASES OF NC INTERESTS | 573 | 77 |
| OTHER CHANGES IN EQUITY | (3,135) | (360) |
| CHANGES IN OTHER FINANCIAL ASSETS | 2,375 | (7,235) |
| DRAWDOWN/(REPAYMENT) OF OTHER LOANS AND BORROWINGS | 33,408 | 18,448 |
| DIVIDENDS PAID AND RESERVES DISTRIBUTED | (29,732) | (13,587) |
| **CASH FLOW USED IN FINANCING ACTIVITIES** | **3,489** | **(2,657)** |
| | | |
| **INCREASE (DECREASE) IN NET CASH AND CASH EQUIVALENTS** | **14,952** | **(6,914)** |
| | | |
| **OPENING NET CASH AND CASH EQUIVALENTS** | **29,490** | **36,404** |
| | | |
| **CLOSING NET CASH AND CASH EQUIVALENTS** | **44,442** | **29,490** |
| | | |
| **CASH AND CASH EQUIVALENTS** | **55,334** | **32,820** |
| **BANK OVERDRAFTS** | **(10,892)** | **(3,330)** |
| **CLOSING NET CASH AND CASH EQUIVALENTS** | **44,442** | **29,490** |

# Consolidated statement of changes equity

| | SHARE CAPITAL | LEGAL RESERVE | SHARE PREMIUM RESERVE | STOCK OPTION RESERVE | CASH FLOW HEDGING RESERVE | POST-EMP. BENEFIT | RETAINED EARNINGS(LOSSES CARRIED FORWARD) | 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 |
| Dilution of non-controlling interests (MHE) | | | | | | | 44 | | | 44 | | (73) | (29) |
| Dilution of non-controlling interests (PGR) | | | | | | | 331 | | | 331 | | (382) | (51) |
| Dilution 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 | LEGAL RESERVE | SHARE PREMIUM RESERVE | STOCK OPTION RESERVE | CASH FLOW HEDGING RESERVE | POST-EMP. BENEFIT | RETAINED EARNINGS(LOSSES CARRIED FORWARD) | TRANSLATION RESERVE | PROFIT FOR THE YEAR | TOTAL | PROFIT FOR THE YEAR ATTRIBUTABLE TO NC INTERESTS | NON-CONTROLLING INTERESTS | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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** |
| IFRS 9 impact | | | | | | | **(876)** | | | **(876)** | | **(69)** | **(945)** |
| **BALANCE AT 31 DECEMBER 2017** | **8,848** | **1,770** | **118,562** | **1,832** | **(559)** | **(2,128)** | **128,562** | **194** | **29,049** | **286,130** | **1,643** | **4,835** | **292,608** |
| Share capital increase | | | | | | | | | | 0 | | 573 | 573 |
| Profit for the year | | | | | | | | | 35,168 | 35,168 | 1,148 | | 36,316 |
| **Other comprehensive income** | | | | | | | | | | | | | |
| Changes in cash flow hedge reserve | | | | | 116 | | | | | 116 | | | 116 |
| Changes in post-employment benefit valuation reserve | | | | | | 506 | | | | 506 | | 11 | 517 |
| Translation differences | | | | | | | | (153) | | (153) | | (4) | (157) |
| **Total other comprehensive income** | **0** | **0** | **0** | **0** | **116** | **506** | **0** | **(153)** | **35,168** | **35,637** | **1,148** | **7** | **36,792** |
| Increase in stock option reserve | | | | 384 | | | | | | 384 | | | 384 |
| Dilution of non-controlling interests (CMH) | | | | | | | (58) | | | (58) | | 58 | 0 |
| Dilution of non-controlling interests (STX) | | | | | | | (1,668) | | | (1,668) | | (1,310) | (2,978) |
| Allocation of prior year profit | | | | | | | 29,049 | | (29,049) | 0 | (1,643) | 1,643 | 0 |
| Dividends and reserves distribuited to Shareholders | | | (29,004) | | | | | | | (29,004) | | (728) | (29,732) |
| Utilisation of share premium | | | (3,545) | | | | 3,545 | | | 0 | | | 0 |
| **BALANCE AT 31 DECEMBER 2018** | **8,848** | **1,770** | **86,013** | **2,216** | **(443)** | **(1,622)** | **159,430** | **41** | **35,168** | **291,421** | **1,148** | **5,078** | **297,647** |

# Accounting policies and Notes to the Consolidated Financial Statements

# 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 2018, KOS Group was managing some 86 healthcare facilities in North and Central Italy with a total of 8,157 beds plus around 600 beds under construction. It operates in two Strategic Business Areas (SBA) which are divided into three operating segments:

- **Long Term Care**: management of nursing homes for the elderly with some 51 nursing homes for a total of 5,614 beds and 34 rehabilitation facilities for a total of 2,420 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 2018, 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% |
| | 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 | 90.42% | 90.42% |
| | Villa Margherita S.r.l. | Arcugnano (VI) | 20,000 | € | KOS Care S.r.l | 100.00% | 100.00% |
| | Casa di cura Sant'Alessandro S.r.l. | Rome | 10,000 | € | KOS Care S.r.l | 100.00% | 100.00% |
| | Villa dei Pini S.r.l. | Florence | 50,900 | € | 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% | 90.07% |
| 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 | | 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. | 82.07% | 82.07% |
| | | | | | ClearView Healthcare LTD | 17.93% | 15.27% |
| | 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% | 97.25% |
| | | | | | KOS Care S.r.l | 82.19% | |
| | | | | | 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% | |
| | | | | | Hss Real Estate S.r.l. | 0.43% | |
| | | | | | Villa Margherita S.r.l. | 0.43% | |
| | | | | | Jesilab S.r.l. | 0.43% | |

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

***Other investments in associates and other equity-accounted investees***

| Name | Main office | Share/quota capital (Eur) | | Owner | % of investment | Group interest | Carrying amount (eur) 31/12/2018 | Carrying amount (eur) 31/12/2017 |
|---|---|---|---|---|---|---|---|---|
| Osimo Salute S.p.A | Osimo (AN) | 750,000 | € | Abitare il tempo S.r.l | 25.50% | 14.03% | 893 | 893 |
| Fondo Spazio Sanità | Rome | 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% | 808 | 856 |
| Studio laboratorio Biemme S.r.l. | Castelraimondo (MC) | 10,000 | € | Sanatrix Gestioni S.r.l. | 100.00% | 100.00% | 425 | - |
| Other | | | | | | | 16 | 20 |
| **Total** | | | | | | | **3,042** | **2,669** |

** Equity-accounted investees*

The acquisitions highlighted below took place during 2018:

- Casa di cura Sant'Alessandro Srl, whose acquisition generated goodwill of € 3,675 thousand in relation to an acquisition price of € 7,030 thousand;
- Prora Srl and Ideas Srl, where the final acquisition price of € 5,645 thousand gave rise to goodwill of € 4,582 thousand;
- Laboratorio analisi chimiche delta Srl, whose acquisition price of € 710 thousand gave rise to goodwill of € 698 thousand.
- Ippofin Srl, owner of 100% of the quotas in Villa dei Ciliegi di Monteveglio Srl. The acquisition price paid of € 7,216 thousand gave rise to goodwill of € 1,890 thousand.
- Villa di Pini Srl, whose acquisition price of € 3,215 thousand gave rise to goodwill of € 3,159 thousand.

As a result of the acquisitions made in 2017 and 2018, the figures at 31 December 2018 are not perfectly comparable with those at 31 December 2017.

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 2018 report the following amounts.

| **Eur thousand** | | **31/12/2018** |
|---|---|---|
| Non current assets* | G | 10,977 |
| Working capital | | 1,115 |
| Non current net assets/(liabilities) | | (2,781) |
| Financial liabilities | C | (1,198) |
| Cash and cash equivalents | B | 1,749 |
| Non-controlling interests | | 0 |
| Goodwill | H | 14,004 |
| Equity reserves | | 0 |
| **Purchase price** | | **(23,866)** |
| **of which:** | | |
| Advances paid in previous periods | | (400) |
| Purchase price allocation liabilities | | (1,933) |
| Price paid net of advances | A | (21,533) |
| **Impact on financial debt** | **D= A+B+C** | **(20,982)** |
| **Purchase price net of cash and cash equivalents** | **E=A+B** | (22,117) |
| **Non current assets from acquisition** | **I=G+H** | **24,981** |

(*)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 € 7,324 thousand while the effect on gross operating profit is positive and amounts to € 514 thousand.

The above acquisitions involved acquisition related costs totalling € 812 thousand.

# 2 Basis of preparation

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 2018 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 Consolidated Income Statement, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Statement of Changes in Consolidated Equity and the Notes to the Consolidated Financial Statements.

## 2.2 Basis of presentation and comparability

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

The consolidated 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 Consolidated 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 hedging reserve 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 Change of accounting standards

The Group has adopted IFRS 15 and IFRS 9 with effect from 1 January 2018. The other new standards that came into force with effect from 1 January 2018 have not had any effect on the consolidated financial statements of the Group.

In compliance with the first-time application methods chosen, comparative information has not been restated, except for losses due to the impairment of trade receivables and cash and cash equivalents.

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014. The standard is applicable to reporting periods commencing on or after 1 January 2018.

IFRS 9 introduces new rules for the classification and measurement of financial assets, financial liabilities and certain contracts for the sale and purchase of non-financial items.

The standard replaces IAS 39 “*Financial instruments: Recognition and measurement*”.

In more detail, for financial assets, it provides for methods that reflect the business model whereby the assets are managed and their cash flow characteristics. The standard classifies the assets into three main categories based on measurement criteria: “at amortised cost”, “at fair value through other comprehensive income” and “at fair value through profit or loss”. The categories provided for by IAS 39 - i.e. financial instruments held to maturity, loans and receivables and financial instruments available for sale – are eliminated.

Another change regards the measurement of impairment losses. This is no longer performed based on a model represented by the incurred loss (“incurred loss model”), as under IAS 39, but on a model based on expected credit losses (“expected credit loss model”). The model aims to measure the impact of changes in economic factors on expected credit losses, as weighted based on the likelihood that they will occur.

The new standard also issues a new model of hedge accounting, aligned with the risk management policies of the entity. With regard to investments, the exemption from application of the fair value measurement criterion for unlisted investments has been eliminated. Finally, IFRS 9 requires detailed, new disclosures in financial statements, with particular regard to hedge accounting, credit risk and expected credit losses.

Impairment losses of other financial assets are recognised under “financial expenses”, in a similar manner to the recognition criteria under IAS 39. They are not reported separately in the Income Statement or in the Statement of Other Comprehensive Income.

The effects of first-time application of the standard mainly regard an increase in impairment losses on trade receivables, financial receivables and guarantees given, as shown in the table below:

| ***(eur/000)*** | | **IFRS 9 impact on opening balance** |
|---|---|---|
| Retained earnings (losses carried forward) | | |
| Recognition of expected losses on receivables and cash and cash equivalents as per IFRS9 | - | 1,135 |
| Tax effect | | 190 |
| **Impact on 1st of january 2018** | **-** | **945** |

### Classification and measurement of financial assets and liabilities

IFRS 9 classifies financial assets into three main categories: at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). The classification required by the standard is usually based on the entity's business model for managing financial assets and the nature of the contractual cash flows of the financial asset. The categories laid down by IAS 39 – i.e. held until maturity, loans and receivables and available for sale – are eliminated. Under IFRS 9, derivatives embedded in contracts where the primary element is a financial asset falling within the scope of application of the standard must never be separated. Hybrid instruments are reviewed as a whole for classification purposes.

IFRS 9 essentially maintains the provisions of IAS 39 for the classification and measurement of financial liabilities.

Adoption of IFRS 9 has not had a significant effect on the measurement criteria applied by the Group to financial liabilities and to derivative instruments (for derivatives used as hedging instruments).

The following table and the related notes show the original measurement categories provided for by IAS 39 and those introduced by IFRS 9 for each type of financial asset and liability of the Group at 1 January 2018.

**(eur/000)**

| Categories of financial assets and liabilities at 1st january 2018 | IAS 39 classification | IFRS 9 classification | Original amount in accordance with IAS 39 | IFRS 9 amount | FV reserve at 01/01/2018 |
|---|---|---|---|---|---|
| *NON CURRENT ASSETS* | | | | | |
| Other investments | Cost | Cost except Fondo Spazio Sanitario valued FVTPL | 1,813 | 1,813 | - |
| Other receivables | Receivables at amortised cost | Receivables at amortised cost | 3,126 | 3,126 | - |
| *CURRENT ASSETS* | | | | | |
| Receivables from parent company | Loans and Receivables | Amortised cost | 1,392 | 1,392 | - |
| Trade receivables | Loans and Receivables | Amortised cost | 96,725 | 95,619 | 923 |
| Other assets | Loans and Receivables | Amortised cost | 9,936 | 9,936 | - |
| Financial assets | Receivables at amortised cost | Receivables at amortised cost | 17,049 | 17,049 | - |
| Securities | Possedute per negoziazione | FVTPL | 352 | 352 | - |
| Cash and cash equivalents | Receivables at amortised cost | Receivables at amortised cost | 32,820 | 32,790 | 22 |
| *NON CURRENT LIABILITIES* | | | | | |
| Bond loans | Liabilities at amortised cost | Liabilities at amortised cost | (98,308) | (98,308) | - |
| Other financial liabilities | Liabilities at amortised cost | Liabilities at amortised cost | (164,799) | (164,799) | - |
| *CURRENT LIABILITIES* | | | | | |
| Bank overdrafts | Liabilities at amortised cost | Liabilities at amortised cost | (3,330) | (3,330) | - |
| Bond loans | Liabilities at amortised cost | Liabilities at amortised cost | (675) | (675) | - |
| Payables to parent company | Liabilities at amortised cost | Liabilities at amortised cost | (5,869) | (5,869) | - |
| Other financial liabilities | Liabilities at amortised cost | Liabilities at amortised cost | (20,254) | (20,254) | - |
| Trade payables | Liabilities at amortised cost | Liabilities at amortised cost | (69,301) | (69,301) | - |

The effect of the application of IFRS 9 on the carrying amount of financial assets at 1 January 2018 refers solely to the new provisions on impairment losses.

Trade receivables, other receivables and cash and cash equivalents that were classified as loans and receivables in accordance with IAS 39 are now classified at amortised cost.

IFRS 9 replaces the incurred loss model provided for by IAS 39 with an expected credit loss (or "ECL") model. The new impairment model is applied to financial assets measured at amortised cost, to assets resulting from contracts and to debt securities measured at FVOCI, except for equity securities. Under IFRS 9, credit losses are recognised earlier than provided for by IAS 39.

Application of the provisions of the IFRS 9 on impairment at 1 January 2018 led to an additional loss allowance as described below.

| *(eur/000)* | | IFRS 9 impact on opening balance |
|---|---|---|
| **Loss allowance as at 31 december 2017 in accordance with IAS 39** | | **24,206** |
| Additional impairment losses recognized as at january 1, 2018 on: | | |
| Trade receivables as at 31 December 2017 | - | 1,106 |
| Cash and cash equivalents | - | 29 |
| **Loss allowance provision as at 1st january 2018 in accordance with IFRS 9** | | **23,071** |

IFRS 15 introduces a single, general model to establish if, when and to what extent revenue should be recognised. The standard replaces IAS 18 Revenue, IAS 11 Construction contracts and related interpretations. Under IFRS 15, revenue is recognised when the customer obtains control of the goods or services. Determination of the point when control is transferred – at a point in time or over time – requires an assessment by Management.
A review performed to identify the areas affected by application of IFRS 15 and to determine the related effects did not reveal any significant effects on consolidated profit or equity.

## 2.3 Basis of consolidation

The consolidated financial statements are based on the separate 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 uniform basis to all of the reporting periods presented in this document, except as otherwise stated.

These consolidated 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 writedowns 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 consolidated statement of financial position and in the consolidated income statement. Losses attributable to non-controlling interests that exceed their share of the subsidiary's equity are allocated to equity attributable 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 recorded 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 dis-poses 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 consolidated income statement.
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## 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 under 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 recognised 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 de-scribed 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 recognised 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 recognised 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 recognised 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 shall not exceed the carrying amount that would have emerged (after amortisation) if the impairment had never been recognised.

### *Investments in other entities*

Investments in other entities that constitute non-current financial assets not held for trading (i.e. FVOCI equity investments) 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.
Investments in real estate funds are measured at FVTPL.
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 a loss allowance. 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.

Trade receivables and other assets – current and non-current – (representing financial assets) are financial instruments, mainly relating to trade receivables, not derivatives and not listed on an active market, from which fixed or determinable payments are expected. Trade receivables and other assets classified in the Statement of Financial Position under current assets except for those with a contractual maturity date more than twelve months after the reporting date which are classified as non-current assets.

These financial assets are recognised when the Company becomes party to the related contracts. Financial assets disposed of are derecognised as assets in the Statement of Financial Position when the right to receive cash flows is transferred together with all of the risks and rewards associated with the asset in question.

These assets are originally recognised at fair value and, subsequently, at amortised cost, using the effective rate of interest, as adjusted for impairment. They are measured based on the impairment model introduced by IFRS 9 whereby the Company measures the receivables on an Expected Loss basis in place of the IAS 39 framework which was based on Incurred Loss.

Impairment of receivables is taken to profit or loss when there is objective evidence that the Company will be unable to recover the receivable on the basis of the contractual terms.

The amount of the impairment is measured as the difference between the carrying amount of the asset and the present amount of expected future cash flows.

Receivables are recognised net of the related loss allowance. Impairment adjustments made in terms of IFRS 9 are recognised in the Income Statement after any positive effects due to reversals of impairment adjustments.

***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 "Income taxes".

***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.
Amounts are rcognised at amortised cost, as adjusted for any risk of default by the counterparty. Any foreign currency amounts are recognised at the reporting date exchange rate.

Impairment losses of cash and cash equivalents have been measured based on expected credit losses in the next twelve months and reflect the short-term maturity of the exposures. Based on the external credit rating of its counterparties, the Group classes the credit risk regarding its cash and cash equivalents as low.
The Group measures expected credit losses relating to cash and cash equivalents using a method similar to that applied to debt securities.
Adoption of the standard has not produced any significant effects on the consolidated statement of financial position at the date of initial application of the standard.

**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 “FVOCI” 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 hedging reserve*

The cash flow hedging reserve is generated when changes in the fair value of derivatives designated, for IFRS 9 purposes, as cash flow hedges are recognised. The portion of the gain or loss considered “effective” is recognised in equity and is accounted for in profit or loss over the periods – and in the manner – in which the hedged items flow through profit or loss for the period in which the related effect of the hedged transaction on profit or loss is recognised. Gains or losses related to a hedge considered ineffective are recognised immediately in profit or loss. Moreover, the new IFRS 9 introduces a new hedge accounting model, aligned with the entity’s risk management policies.

## CURRENT AND NON-CURRENT LIABILITIES

### *Financial liabilities*

Financial liabilities are measured at amortised cost or at FVTPL. A financial liability is classified at FVTPL when it is held for trading, is a derivative or is designated as such upon initial recognition. Financial liabilities at FVTPL are measured at fair value and any changes, including interest expenses, are recorded in profit or loss for the period. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and exchange gains/(losses) are recorded in profit or loss for the period, as are any gains or losses due to accounting derecognition.
The Group derecognises a financial liability when the obligation specified in the contract has been fulfilled or can-celled or has expired. The Group also derecognises a financial liability in case of a change to the related terms of contract and the cash flows of the amended liability are substantially different. In that case, a new financial liability is recognised at fair value based on the amended terms of contract.
The difference between the carrying amount of the extinguished financial liability and the consideration paid (including assets not represented by cash and cash equivalents transferred or liabilities assumed) 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 dis-counted. 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, constitutes a form of deferred remuneration and depends 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.

Revenue is recognised at the fair value of the consideration received. Revenue is recognised net of value added tax, expected returns, allowances and discounts.
Based on the model introduced by the new IFRS 15, the Group proceeds to recognise revenue once it has identified the contracts with its customers and the related services to be rendered (transfer of goods and/or services), determined the consideration it believes it has the right to receive in exchange for such services and assessed how the services will be rendered.

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 as at the reporting date and the vested portion of 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 expected 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 recorded 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 recognises a payable towards 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.

The fair value of financial instruments listed on an active market is based on market prices at the reporting date. Meanwhile, the fair value of financial instruments not listed on an active market is determined using valuation techniques based on methods and assumptions linked to market conditions at the reporting date. At the date of signature of the contract, the derivative instruments are initially recognised at fair value as financial assets when fair value is positive or as financial liabilities when fair value is negative. If the financial instruments are not accounted for as hedging instruments, changes in fair value after initial recognition are treated as components of profit or loss.

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 flow 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 closed 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**

**Recognition and measurement**

Trade receivables and debt securities issued are recognised when they originate. All other financial assets and liabilities are initially recognised at the trade date i.e. when the Group becomes a contractual party to the financial instrument.
Except for trade receivables which do not contain a significant financing component, financial assets are initially measured at fair value plus or minus – in the case of financial assets or liabilities not measured at FVTPL – transaction costs directly attributable to the acquisition or issue of the financial asset. At the time of initial recognition, trade receivables without a significant financing component are measured at their transaction price.

**Subsequent classification and measurement**

*Financial assets – Criterion applicable from 1 January 2018*

Upon initial recognition, financial assets are classified based on measurement criteria: amortised cost, fair value through other comprehensive income (FVOCI) – debt securities; FVOCI – equity securities; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets. In that case, all of the financial assets affected are reclassified on the first day of the first reporting period after the change of business model.

A financial asset shall be measured at amortised cost if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- he contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVOCI if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At the time of initial recognition of an equity security not held for trading, the Group may choose irrevocably to present subsequent changes in fair value through other comprehensive income. This choice is made for each asset.

All financial assets not classified as measured at amortised cost or at FVOCI, as previously indicated, are measured at FVTPL. This includes all derivative instruments.
At the time of initial recognition, the Group may irrevocably designate the financial asset as measured at fair value through profit or loss if, by so doing, it eliminates or significantly reduces an accounting imbalance that would other-wise arise from measurement of the financial asset at amortised cost or at FVOCI.

*Financial assets: evaluation of business model – criterion applicable from 1 January 2018*

The Group determines the objective of the business model within which the financial asset is held on a portfolio level as this best reflects the way that the asset is managed and information communicated to management. This information includes:

- the stated criteria and the objectives of the portfolio and the practical application of said criteria including, inter alia, if the management strategy is based on obtaining interest income from the contract, on maintaining a determinate interest rate profile, on aligning the duration of the financial assets with that of related financial activities or on expected cash flows or on the collection of cash flows through the sale of the assets;

- the portfolio performance valuation methods and the methods used to the Group's key management personnel;
- the risks that affect performance of the business model (and of the financial assets held within the business model) and the way that such risks are managed;
- the method of remuneration for Company management (e.g. if remuneration is based on the fair value of the assets managed or on contractual cash flows collected); and
- the frequency, value and timing of sales of financial assets in prior years, the reasons for sale and expectations regarding future sales.

Transfers of financial assets to third parties through transactions that do not lead to derecognition are not considered sales for the purposes of evaluation of the business model, in line with the fact that the Group continues to report such assets.

Financial assets that satisfy the definition of financial assets held for trading or whose performance is evaluated based on fair value are measured at FVTPL.

*Financial assets: assessment to determine if contractual cash flows are represented solely by payments of principal and interest – criterion applicable from 1 January 2018*

For valuation purposes, the "principal" is the fair value of the financial asset at the time of initial recognition while the "interest" is the consideration for the time value of money, for the credit risk associated with the amount of principal to be repaid over a given period of time and for other risks and basic costs related to the loan (for example, the liquidity risk and administrative costs), as well as for the profit margin.
When determining if contractual cash flows are represented solely by payments of principal and interest, the Group considers the terms of contract of the instrument. Therefore, it considers whether the financial asset contains a contractual clause that alters the timing or the amount of the contractual cash flows in such a way that it does not meet the following condition. For valuation purposes, the Group considers:

- contingent events that would change the timing or the amount of the cash flows;
- clauses that could alter the contractual coupon rate, including variable rate items;
- elements of prepayment and extension; and
- clauses that limit the Group's demands for cash flows from specific assets (e.g. items without recourse).

The element of prepayment is in line with the criterion of "cash flows represented solely by payments of principal and interest" when the amount of the prepayment substantially represents unpaid amounts of principal and interest accruing on the outstanding principal, that could include a reasonable additional compensation for the early termination of the contract. Moreover, in the case of a financial asset acquired with a premium or a significant discount on the contractual nominal amount, an element that permits or requires a prepayment equal to an amount that substantially rep-resents the contractual nominal amount plus contractual interest accruing (but not paid) (that may include a reasonable additional compensation for early termination of the contract) is accounted for in accordance with this criterion of the fair value of the element of prepayment is not significant at the time of initial recognition.

| Financial assets: subsequent measurement and profits and losses – criterion applicable from 1 January 2018 | |
|---|---|
| Financial assets measured at FVTPL | These assets are subsequently measured at fair value. Net profits and losses, including dividends or interest received, are recognised in profit/(loss) for the year. |
| Financial assets measured at amortised cost | These assets are subsequently measured at amortised cost in accordance with the effective interest method. Amortised cost is reduced for impairment. Interest income, exchange gains and losses and impairment losses are recognised in profit/(loss) for the year as are any gains or losses due to derecognition. |
| Debt securities measured at FVOCI | These assets are subsequently measured at fair value. Interest income calculated in accordance with the effective interest method, exchange gains and losses and impairment losses are recognised in profit/(loss) for the year. Other net profits and losses are recognised in other comprehensive income. Upon derecognition, profits or losses accumulated in other comprehensive income are recycled through profit or loss. |
| Equity securities measured at FVOCI | These assets are subsequently measured at fair value. Dividends are recognised in profit/(loss) for the year unless they clearly represent a recovery of part of the cost of the investment. Other net profits and losses are recognised in other comprehensive income and are never recycled through profit or loss for the year. |

The Group previously classified its financial assets in the following categories:

- loans and receivables;
- held to maturity investments;
- available for sale financial assets; and
- financial assets at FVTPL and, within said category:
  - held for trading;
  - hedging instruments; or
  - designated at FVTPL.

| Financial assets: subsequent measurement and profits and losses – criterion applicable prior to 1 January 2018 | |
|---|---|
| Financial assets measured at FVTPL | Measured at fair value and any changes – including dividends or interest – were recognised in profit or loss for the year. |
| Held to maturity investments | Measured at amortised cost using the effective interest method. |
| Loans and receivables | Measured at amortised cost using the effective interest method. |
| Available for sale financial assets | Measured at fair value and any changes – other than impairment losses, interest income and exchange differences on debt instruments – were recognised in other comprehensive income and presented in the fair value measurement reserve. When a financial asset was derecognised, accumulated profits or losses were reclassified from equity to profit or loss for the year. |

*Financial liabilities: classification, subsequent measurement and profits and losses*

Financial liabilities are classified as measured at amortised cost or at FVTPL. A financial liability is classified at FVTPL when it is held for trading, represents a derivative or is designated as such at the time of initial recognition. Financial liabilities at FVTPL are measured at fair value and any changes, including interest expenses, are recognised in profit or loss for the year. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and exchange gains/(losses) are recognised in profit or loss for the year, as are any gains or losses resulting from derecognition.

***Derecognition***

*Financial assets*

Financial assets are derecognised when the contractual rights to cash flows thereunder expire, when the contractual rights to receive the cash flows from a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or where the Group neither transfers nor maintains substantially all of the risks and re-wards of ownership of the financial asset and does not maintain control of the financial asset.
The Group is involved in transactions that provide for the transfer of assets recognised in its Statement of Financial Position but maintains all or substantially all of the risks and rewards resulting from the asset transferred. In such cases, the assets transferred are not derecognised.

*Financial liabilities*

The Group derecognises a financial liability when the obligation specified in the contract has been fulfilled or cancelled or has expired. The Group also derecognises a financial liability in case of a change to the related terms of contract and the cash flows of the amended liability are substantially different. In that case, a new financial liability is recognised at fair value based on the amended terms of contract.
The difference between the carrying amount of the extinguished financial liability and the consideration paid (including assets not represented by cash and cash equivalents transferred or liabilities assumed) is recognised in profit or loss for the year.

***Offsetting***

Financial assets and liabilities may be offset and the amount resulting from the offsetting is presented in the Statement of Financial Position if, and only if, the Company currently has the legal right to offset such amounts and intends to settle the balance on a net basis or to realise the asset and settle the liability at the same time.

*Derivative instruments, including hedge accounting – Criterion applicable from 1 January 2018*

The Group uses derivative instruments to hedge its exposure to the foreign exchange and interest rate risks. Embedded derivatives are separated from the primary contract and accounted for separately when the primary contract does not constitute a financial asset and when certain criteria are met.
Derivative instruments are initially measured at fair value. After initial recognition, derivatives are measured at fair value and related changes are accounted for at FVOCI and/or in profit or loss for the year.
The Group designates certain derivative instruments as hedging instruments to cover variability in cash flows relating to highly probable transactions resulting from fluctuation in exchange rates and interest rates. It also designates certain derivatives and non-derivative financial liabilities as hedging instruments for the exchange risk regarding a net investment in a foreign operation.
At the outset of the designated hedging relationship, the Group documents the risk management objectives and the strategy for the hedge, as well as the economic relationship between the hedged item and the hedging instrument and whether it is expected that changes in the cash and cash equivalents of the hedged item and the hedging instrument will offset one another.

***Cash flow hedges***

When a derivative instrument is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the cash flow hedge reserve. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive in-

come is limited to the cumulative change in the fair value of the hedged instrument (at present value) since the outset of the hedge. The ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss for the year.
In a cash flow hedging relationship, the Group designates as a hedging instrument only the change in the fair value of the spot element of the forward contract. The change in the fair value of the forward element of the forward exchange contract is accounted for separately as a hedging cost and recognised in equity, in the hedging reserve.

If a planned hedged transaction subsequently leads to recognition of a non-financial asset or liability e.g. inventory, the amount accumulated in the cash flow hedge reserve and in the reserve for hedging costs is included directly in the initial cost of the asset or liability at the time of recognition.
For all other planned hedged transactions, the amount shall be reclassified from the cash flow hedge reserve and from the reserve for hedging costs to profit or loss for the same period or same periods in which the expected hedged future cash flows have an effect on profit or loss for the year.
If the hedge ceases to meet admissibility criteria or the hedging instrument is sold, expires or is exercised, the hedge ac-counting ceases prospectively. When hedge accounting of cash flow hedges ceases, the amount accumulated in the cash flow hedge reserve remains in equity until, in case of hedging of a transaction including the recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at the time of initial recognition or, in the case of other cash flow hedges, it is reclassified to profit or loss for the same period or the same periods in which the hedged future cash flows have an effect on profit or loss for the year.
If no more hedged future cash flows are expected, the amount must be reclassified immediately from the cash flow hedge reserve and from the reserve for hedging costs to profit or loss for the year.

***Hedging of net investments***

When a derivative instrument or a non-derivative financial liability is designated as a hedging instrument in relation to the hedging of a net investment in a foreign operation, the effective portion – in the case of derivatives – of the change in the fair value of a derivative instrument, or – in the case of a non-derivative – the exchange gains or losses, are recognised in other comprehensive income or presented in equity in a translation reserve. The non-effective portion is recognised immediately in profit or loss for the year. The amount recognised in other comprehensive income is reclassified to profit or loss for the year as a reclassification adjustment upon disposal of the foreign operation.

*Derivative instruments, including hedge accounting – Criterion applicable prior to 1 January 2018*

The criterion applied to comparative information for 2017 is similar to that adopted for 2018. However, for all cash flow hedges, including those regarding operations that involve the recognition of a non-financial asset or liability, the amounts accumulated in the cash flow hedge reserve have been reclassified to profit or loss for the year in the same period or periods in which the expected future cash flows hedged have an effect on profit or loss. Moreover, in the case of cash flow hedges concluded prior to 2017, forward points have been recognised immediately in profit or loss for the year.

## 2.5 Main assumptions and accounting estimates

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***

Goodwill with an indefinite useful life undergoes an annual impairment test. Any impairment, as ascertained when the net carrying amount of the cash generating units to which the goodwill is allocated is higher than its recoverable amount (defined as the higher of value in use and fair value) is recognised by means of an impairment adjustment. This test requires the Directors to make subjective judgments based on information available within the Group and on the market, as well as based on their past experience. Moreover, when a potential impairment is identified, the Group quantifies it using appropriate valuation methods. The same impairment tests and valuation methods are applied to intangible assets and property, plant and equipment with a finite useful life when there are indicators that it will be difficult to recover their net carrying amount through use. The proper identification of indicators of impairment and estimates made to quantify the impairment depend on factors that vary over time, affecting the valuations and estimates made by the Directors.

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 value of tangible 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 2019-2023 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 2019 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 Suzzara Hospital - which incurres 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 Suzzara Hospital 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 2018 will not be impaired in future periods.

***Other investments***

Investments are considered as belonging to the fair value in other comprehensive income category, except for investments in real estate funds which must be measured at FVTPL. This is considering 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:

- 11 IRS (Interest Rate Swap)- contracts;
- 4 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 IFRS 9.

No new derivative contracts were entered into in 2018.

***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 loss allowance***

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.

The loss allowance represents the directors' best estimate of losses on trade receivables. Another change introduced by IFRS 9 regards the fact that impairment is no longer determined based on the incurred loss model, as under IAS 39, but under the expected credit loss model. The expected credit loss model performs an assessment based on the impact of changes in economic factors on expected credit losses, as weighted based on the likelihood of occurrence. The Group has concluded that, given the characteristics of the industry segment in which it operates, the estimate of the new methods for use in estimating impairment of financial assets has not had a significant effect on existing valuation processes. This conclusion is based on the fact that the factors previously used to determine credit risk under IAS 39 i.e. customer risk, country risk and assessment of relevant macroeconomic information, are already considered representative of an expected risk based valuation method.

***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.

Provision is recognised for the risk of a negative outcome for legal and tax risks. The amount of the provisions recognised in relation to such risks represents the directors' best estimate at the reporting date. This estimate involves making assumptions that depend on factors that could change over time and that could have significant effects on the current estimates made by the directors when preparing the Group's financial statements.

***Employee benefits***

Liabilities for post-employment benefits for employees 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 increase, 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.

## 2.6 ACCOUNTING STANDARDS, IMPROVEMENTS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2018

Details of the new standards and/or the standards amended by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) whose application is obligatory with effect from the 2018 reporting period are provided below.

| Document title | Issue date | Effective date | Endorsement date | EU Regulation and publication date |
|---|---|---|---|---|
| IFRS 15 – Revenue from contracts with customers | May 2014 (Note 1) | 1 January 2018 | 22 September 2016 | (EU) 2016/1905 29 October 2016 |
| IFRS 9 – Financial instruments | July 2014 | 1 January 2018 | 22 November 2016 | (EU) 2016/2067 29 November 2016 |
| Clarifications to IFRS 15 – Revenue from contracts with customers | April 2016 | 1 January 2018 | 31 October 2017 | (EU) 2017/1987 9 November 2017 |
| Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts – (Amendments to IFRS 4) | September 2016 | 1 January 2018 | 3 November 2017 | (EU) 2017/1988 9 November 2017 |
| Improvements to IFRS –2014-2016 cycle (Amendments to IFRS 1 and IAS 28) | December 2016 | 1 January 2018 | 7 February 2018 | (EU) 2018/182 8 February 2018 |
| Classification and measurement of transactions with share-based payments (Amendments to IFRS 2) | June 2016 | 1 January 2018 | 26 February 2018 | (EU) 2018/289 27 February 2018 |
| Changes in use of investment property (Amendments to IAS 40) | December 2016 | 1 January 2018 | 14 March 2018 | (EU) 2018/400 15 March 2018 |
| Interpretation of IFRIC 22 – Foreign currency transactions and advance consideration | December 2016 | 1 January 2018 | 28 March 2018 | (EU) 2018/519 3 April 2018 |

(Note 1) The amendment, which changed the effective date of IFRS 15, was published in September 2015.

**ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION AT 31 DECEMBER 2018**

Details of international financial reporting standards, interpretations, amendments to existing standards and interpretations i.e. specific provisions contained in the standards and interpretations approved by the IASB are provided below, together with an indication of those endorsed or not endorsed for adoption in Europe at the date of approval of this annual report.

| Document title | Issue date | Effective date | Endorsement date | EU Regulation and publication date |
|---|---|---|---|---|
| IFRS 16 – Leases | January 2016 | 1 January 2019 | 31 October 2017 | (EU) 2017/1986<br>9 November 2017 |
| Prepayment features with negative compensation (Amendments to IFRS 9) | October 2017 | 1 January 2019 | 22 March 2018 | (EU) 2018/498<br>26 March 2018 |
| Interpretation IFRIC 23 – Uncertainty over income tax treatments | June 2017 | 1 January 2019 | 23 October 2018 | (EU) 2018/1595<br>24 October 2018 |

An assessment of the effect these standards, amendments and interpretations will have on the Group is in progress. However, it is expected that application of IFRS 16 will have significant effects on the Group Income Statement and Statement of Financial Position given the numerous rental agreements (around 110) in place for the management of residences, nursing homes and rehabilitation hospitals. These contracts vary in length but, typically, have a minimum initial period of 6, 9 or 12 years plus a renewal option. The renewal option, if in favour of the lessee, falls within the scope of application of the standard where management believes it is reasonably certain that the rental will continue beyond the first contractual expiry date. The group estimates that application of this standard could have an effect of around Euro 330 million on financial indebtedness at 1 January 2019 (under assessment).

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION AT 31 DECEMBER 2018

As at 31 December 2018, the competent bodies of the European Union had not yet completed the endorsement process necessary for adoption of the accounting standards and amendments shown below. An assessment of the possible effect that these standards, amendments and interpretations will have on the Financial Statements is still in progress.

| Document title | Date of issue by the IASB | Effective date of IASB document | Date of expected EU endorsement |
|---|---|---|---|
| **Standards** | | | |
| IFRS 14 Regulatory Deferral Accounts | January 2014 | (Note 1) | (Note 1) |
| IFRS 17 Insurance Contracts | May 2017 | 1 January 2021 | TBD |
| **Amendments** | | | |
| Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) | September 2014 | Postponed until completion of the IASB project on the equity method | Postponed until completion of the IASB project on the equity method |
| Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) | October 2017 | 1 January 2019 | Q1 2019 |
| Annual Improvements to IFRS Standards (2015-2017 Cycle) | December 2017 | 1 January 2019 | Q1 2019 |
| Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) | February 2018 | 1 January 2019 | Q1 2019 |
| Amendments to References to the Conceptual Framework in IFRS Standards | March 2018 | 1 January 2020 | 2019 |
| Definition of business (Amendments to IFRS 3) | October 2018 | 1 January 2020 | 2019 |
| Definition of material (Amendments to IAS 1 and IAS 8) | October 2018 | 1 January 2020 | 2019 |

(Note 1) IFRS 14 came into force on 1 January 2016, but the European Commission has decided to suspend the approval process pending the new accounting standard on "rate regulated activities".

There has been no early application of accounting standards or interpretations whose application would be obligatory for periods commencing after 31 December 2018.

# 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 a loss allowance that represents a broad estimate of losses on receivables as determined based on an analysis and assessment of each individual balance.
The credit risk relating to trade receivables is monitored centrally by the Finance Department which reviews the credit exposure on an ongoing basis. This process leads to a credit provision that ranges from 1% to 100% depending on the age of the receivable. Further information on the review of the status of trade receivables and other assets – current and non-current – is provided in the table in Note *"3.3 Additional disclosures on financial assets"*.

***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 Group's objective is to implement a financial structure which, in line with business objectives, guarantees an appropriate level of liquidity, minimises the related opportunity cost and maintains a good balance in terms of duration and composition of debt.

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 debts 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.

Reference should be made to Note "*5.4 Additional disclosures on financial liabilities*" for a table containing analysis of financial liabilities.

***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, in prior years, the Group entered into contracts to hedge the exchange rate risk relating to a number of financial transactions and some commercial transactions.

With regard to the exchange risk regarding the translation of the financial statements of foreign subsidiaries (prepared in INR and GBP), it should be noted that the operating companies invoice almost all of their revenue in local currency, operate on their local domestic market and raise finances locally.

*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.

The interest rate to which the KOS Group is most exposed is the Euribor.

*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 IFRS 9: classification and measurement of financial assets and liabilities

The following table shows the various measurement methods used for each type of financial asset and liability in 2018.

| Categories of financial assets and liabilities at 31 december 2018 | IFRS 9 new classification | IFRS 9 amount |
|---|---|---|
| *NON CURRENT ASSETS* | | |
| Other investments | Cost except Fondo Spazio Sanitario valued FVTPL | 2,235 |
| Other receivables | Receivables at amortised cost | 4,393 |
| *CURRENT ASSETS* | | |
| Receivables from parent company | Amortised cost | 1,574 |
| Trade receivables | Amortised cost | 96,885 |
| Other assets | Amortised cost | 9,533 |
| Financial assets | Receivables at amortised cost | 14,674 |
| Cash and cash equilvalents | Receivables at amortised cost | 55,334 |
| *NON CURRENT LIABILITIES* | | |
| Bond loans | Liabilities at amortised cost | (98,502) |
| Other financial liabilities | Liabilities at amortised cost | (199,310) |
| *CURRENT LIABILITIES* | | |
| Bank overdrafts | Liabilities at amortised cost | (10,892) |
| Bond loans | Liabilities at amortised cost | (569) |
| Payables to parent company | Liabilities at amortised cost | (8,451) |
| Other financial liabilities | Liabilities at amortised cost | (20,167) |
| Trade payables | Liabilities at amortised cost | (73,275) |

IFRS 7 requires that financial instruments recognised at fair value in the financial statements be classified based on a hierarchy with three levels that reflects the level of input used in determining the fair value. The levels are as follows:

- 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 2018 and 31 December 2017, by hierarchical level of fair value measurement.

| Financial Statements at 31 December 2018 | | | | |
|---|---|---|---|---|
| **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 | | 1 | | 1 |
| - Non-recourse factoring | | 14,671 | | 14,671 |
| ***CURRENT LIABILITIES*** | | | | |
| *Financial liabilities at fair value through equity* | | | | |
| **Other financial liabilities** | | | | |
| - derivatives | | (444) | | (444) |
| *Financial liabilities at fair value through profit or loss* | | | | |
| **Other financial liabilities** | | | | |
| - derivatives | | (97) | | (97) |
| **Total other financial liabilities** | - | (97) | - | (97) |

| 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-recourse factoring | | 17,036 | | 17,036 |
| ***CURRENT LIABILITIES*** | | | | |
| *Financial liabilities at fair value through equity* | | | | |
| **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) |

During 2018, 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 Additional disclosures on financial assets

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.

Changes in the loss allowance during the year are shown below:

| *(eur/000)* | 31/12/2017 | Increase | Utilization | Changes in consolidation scope | Other changes | Differences in exchange rates | 31/12/2018 |
|---|---|---|---|---|---|---|---|
| Loss allowance | 24,206 | 2,462 | (1,552) | 322 | 1,106 | (12) | 26,532 |

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.

For further details, see Note "3.1 Definition of risks".

31/12/2018

| 31/12/2018 | 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 |
| Loss allowance | | | | | | | | | | | | | |
| **Other assets** | **4,393** | **3,092** | **1,301** | **0** | **0** | **0** | **0** | **1,301** | **0** | **0** | **0** | **0** | **0** |
| Gross balance | 4,393 | 3,092 | 1,301 | 0 | 0 | 0 | 0 | 1,301 | 0 | 0 | 0 | 0 | 0 |
| Loss allowance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current assets | | | | | | | | | | | | | |
| **Private sector receivables** | **26,578** | **11,435** | **15,143** | **1,502** | **1,926** | **5,291** | **3,232** | **2,523** | **579** | **35** | **38** | **9** | **8** |
| Gross balance | 35,127 | 11,435 | 23,692 | 1,802 | 2,079 | 5,441 | 4,893 | 3,307 | 2,744 | 1,320 | 734 | 318 | 1,054 |
| Loss allowance | -8,549 | 0 | -8,549 | -300 | -153 | -150 | -1,661 | -784 | -2,165 | -1,285 | -696 | -309 | -1,046 |
| **Public sector trade receivables** | **70,307** | **51,653** | **18,654** | **1,445** | **2,873** | **986** | **4,003** | **3,647** | **2,376** | **875** | **1,681** | **532** | **236** |
| Gross balance | 88,290 | 51,718 | 36,572 | 1,940 | 2,954 | 1,129 | 4,453 | 4,327 | 5,403 | 1,882 | 2,604 | 2,787 | 9,093 |
| Loss allowance | -17,983 | -65 | -17,918 | -495 | -81 | -143 | -450 | -680 | -3,027 | -1,007 | -923 | -2,255 | -8,857 |
| **Other assets** | **9,533** | **9,533** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Gross balance | 9,533 | 9,533 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loss allowance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **110,811** | **75,713** | **35,098** | **2,947** | **4,799** | **6,277** | **7,235** | **7,471** | **2,955** | **910** | **1,719** | **541** | **244** |

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 |
| Loss allowance | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| **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 |
| Loss allowance | 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 |
| Loss allowance | -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 |
| Loss allowance | -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 |
| Loss allowance | 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** |

## 3.4 Additional disclosures on financial liabilities

The contractual maturity dates of "Financial liabilities", including interest payable, are shown in the following tables for 2018 and 2017, respectively. We report below the contractual maturity dates of financial liabilities (including trade payables and other current liabilities), including interest payable. All of the amounts shown are undiscounted, nominal future cash flows, as determined with reference to residual contractual maturities, including both the principal amount and the interest amount. Loans have been included based on the contractual maturity dates when repayment will be made.

| 31.12.2018 Principal + interest | <1 year | >1 <2 years | >2 <3 years | >3 <4 years | >4 <5 years | >5 years | Total | Total carrying amount |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | |
| Bond loan | 3,225 | 3,225 | 3,225 | 3,225 | 3,225 | 101,725 | **117,850** | **99,071** |
| Other financial liabilities: | 29,329 | 40,258 | 46,498 | 60,433 | 20,972 | 49,701 | **247,191** | **218,935** |
| - Bank loans and borrowing | 16,425 | 34,221 | 35,697 | 49,169 | 12,433 | 28,669 | **176,614** | **154,311** |
| - 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 | 12,713 | 5,846 | 10,610 | 11,073 | 8,348 | 20,842 | **69,433** | **63,480** |
| - Other lenders | 191 | 191 | 191 | 191 | 191 | 191 | **1,146** | **1,144** |
| Bank overdrafts | 10,982 | 0 | 0 | 0 | 0 | 0 | **10,982** | **10,892** |
| Trade payables | 73,306 | 0 | 0 | 0 | 0 | 0 | **73,306** | **73,306** |
| **Derivative financial liabilities** | | | | | | | | |
| Hedging derivatives | 1,123 | 0 | 0 | 0 | 0 | 0 | **1,123** | **543** |
| Non-hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** |
| **Total** | **114,740** | **40,258** | **46,498** | **60,433** | **20,972** | **49,701** | **332,602** | **402,747** |

| 31.12.2017 Principal + interest | <1 year | >1 <2 years | >2 <3 years | >3 <4 years | >4 <5 years | >5 years | Total | Total carrying amount |
|---|---|---|---|---|---|---|---|---|
| **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** |

Other financial payables, amounting to € 318,006 thousand (including € 20,736 thousand classified as current liabilities), consist of loans and finance leases due to banks (€186,028), bonds (€99,071 thousand) and derivative financial liabilities (€ 1,334 thousand).

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 contractual cash flows, are not discounted and are gross of any expected 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 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 2018 may be summarised as follows:

| Debtor | Type of loan | Residual amount as at 31.12.2017 | Maturity | Term |
|---|---|---|---|---|
| KOS Care Srl | mortgage loan UBI | 1,113 | 30.06.2025 | Euribor 1 month/360 |
| KOS Care Srl | mortgage loan UBI | 3,332 | 30.06.2025 | Euribor 1 month/365 |
| KOS Care Srl | mortgage loan UBI | 2,829 | 30.06.2025 | Euribor 3 months/360 |
| Abitare il Tempo Srl | mortgage loan UBI | 350 | 31.04.2025 | Euribor 6 months/365 |
| Abitare il Tempo Srl | mortgage loan UBI | 118 | 31.04.2025 | Euribor 6 months/365 |
| KOS Care Srl | mortgage loan BPO | 318 | 31.12.2021 | Euribor 6 months/365 |
| Sanatrix Gestione S.r.l | mortgage loan UBI | 426 | 31.07.2021 | Euribor 3 months/360 |
| KOS S.p.A. | mortgage loan Banco di Brescia - Riva Ligure | 1,602 | 30.09.2023 | Euribor 6 months/365 |
| KOS S.p.A. | mortgage loan Banco di Brescia - Sanremo | 1,295 | 30.09.2023 | Euribor 6 months/365 |
| Hss Real Estate S.r.l | mortgage loan GE | 2,250 | 30.06.2021 | Euribor 3 months/360 |
| KOS Care Srl | mortgage loan BPO | 901 | 31.03.2025 | Euribor 6 months/365 |
| KOS Care Srl | mortgage loan Delleani | 9,692 | 31.10.2024 | Euribor 3 months/360 |
| Sanatrix Gestione S.r.l | Loan UBI | 2,078 | 31.01.2023 | Euribor 6 months/360 |
| KOS Care Srl | Leasing Padiglione F | 6,036 | 30.11.2026 | Euribor 3 months/365 |
| KOS Care Srl | Leasing Monza | 7,112 | 30.09.2029 | Euribor 3 months/365 |
| KOS Care Srl | Leasing Foligno | 3,814 | 01.04.2033 | Euribor 3 months/360 |
| KOS Care Srl | Leasing Montecosaro | 3,982 | 01.11.2026 | Euribor 3 months/365 |
| KOS Care Srl | Leasing Foligno | 5,180 | 01.04.2033 | Euribor 3 months/365 |
| KOS Care Srl | Leasing Ascoli | 5,116 | 30.06.2025 | Euribor 3 months/360 |
| KOS Care Srl | Loan Villa Azzurra | 3,750 | 30.09.2022 | Euribor 3 months/360 |
| KOS Care Srl | Loan Tonengo | 2,571 | 31.12.2022 | Euribor 3 months/360 |
| KOS Care Srl | Leasing Arco e Villa Adria | 3,947 | 30.06.2025 | Euribor 3 months/365 |
| KOS Care Srl | Leasing Polo Geriatrico Riabilitativo | 10,603 | 29.03.2022 | Euribor 3 months/365 |
| KOS Care Srl | mortgage loan | 190 | 29.05.2023 | Euribor 6 months/360 |
| KOS Care Srl | mortgage loan | 468 | 30.10.2020 | Euribor 3 months/360 |
| KOS Care Srl | Loan Campofilone | 3,123 | 30.06.2023 | Euribor 6 months/365 |
| Hss Real Estate S.r.l | Loan Vimercate | 3,242 | 30.06.2023 | Euribor 6 months/365 |
| Sanatrix Gestione S.r.l | Loan Villalba | 450 | 30.09.2023 | Euribor 3 months/365 |
| **Total loans with collateral and/or liens** | | **85,888** | | |
| Ospedale di Suzzara S.p.A | Loan BPS | 1,626 | 31.12.2018 | Euribor 3 months/360 |
| KOS Care Srl | Loan | 42 | 24.05.2019 | Euribor 6 months/365 |
| Ecomedica Spa - Gruppo Medipass | Loan | 79 | 30.09.2019 | Euribor 1 month360 |
| Ecomedica Spa - Gruppo Medipass | Loan | 28 | 30.04.2019 | Euribor 1 month360 |
| Villa Dei Pini Firenze | Loan | 88 | 07.09.2020 | Euribor 1 month360 |
| Villa Dei Pini Firenze | Loan | 165 | 31.01.2020 | Euribor 1 month360 |
| Villa Dei Pini Firenze | Loan | 230 | 28.08.2021 | Euribor 1 month360 |
| ClearMedi HealthCare - Gruppo Medipass | Loan India | 22,026 | | Base rate |
| **Loans not secured by collateral** | | **24,285** | | |
| Kos S.p.A | Syndicated corporate line | 20,000 | 25.07.2022 | Euribor 6 months/360 |
| | Ing Natixis syndicated corporate line | 46,210 | 06.04.2022 | Euribor 6 months/360 |
| | BEI syndicated corporate line | 20,000 | 19.12.2018 | Euribor 12 months/360 |
| **Total Corporate line** | | **86,210** | | |
| Kos Spa | Bond | 35,036 | 18.10.2025 | Fix |
| | Bond | 64,035 | 18.10.2024 | Fix |
| **Total Bond** | | **99,071** | | |
| Operating asset leases | | 21,407 | | |
| **Total finance lease liabilities** | | **21,407** | | |
| KOS Care Srl | Regional loan (FRISL) Lombardy | 1,144 | | |
| **Total other lenders** | | **1,144** | | |
| **Total bank overdrafts** | | **10,892** | | |
| **Financial liabilities for derivatives** | | **543** | | |
| **Total financial liabilities** | | **329,440** | | |

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 2018-2022 are shown below:

| (eur/'000) | Type of loan | Residual amount at 31.12.2018 | Maturity | Base for covenants | Target covenants 31.12.2018 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* | 1,000 | 25/07/2022 | KOS Group | <=3,5 | >=3 | < 60% |
| | *- Line B* | 19,000 | 25/07/2022 | | | | |
| | *- Line Revolving* | | | | | | |
| **Kos S.p.A** | **Syndicated loan (ING, Natixis)** | 47,000 | 06/04/2022 | KOS Group | <=3,5 | >=3 | < 60% |
| **Kos S.p.A** | **Bond 64ML€** | 64,000 | 18/10/2024 | KOS Group | <=3,5 | >=3 | < 60% |
| | **Bond 35ML€** | 35,000 | 18/10/2025 | | | | |
| **Kos S.p.A** | **BEI Loan** | 20,000 | 29/06/2025 | KOS Group | <=3,5 | >=3 | < 60% |
| **Kos S.p.A** | **CDP Loan** | - | 22/02/2026 | KOS Group | <=3,5 | >=3 | < 60% |
| **Kos Care** | **Loan ICREA** | 3,947 | 30/06/2025 | | <=3,5 | | |
| | **Mortgage Villa Azzurra** | 3,750 | '30/09/2022 | KOS Group | <=3,5 | | |
| | **Mortgage GE Tonengo D'Asti** | 2,571 | 18/12/2022 | | <=3,5 | | |
| **Sanatrix Gestione Srl** | **ICREA Loan** | 450 | 30/09/2023 | KOS Group | <=4 | | |

**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

The table below shows actual figures for 2018:

| (eur/'000) | Type of loan | Residual amount at 31.12.2018 | Maturity | Base for covenants | Target covenants 31.12.2018 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* | 1,000 | 25/07/2022 | KOS Group | 1.80 | 8.00 | 41% |
| | *- Line B* | 19,000 | 25/07/2022 | | | | |
| | *- Line Revolving* | | | | | | |
| **Kos S.p.A** | **Syndicated loan (ING, Natixis)** | 47,000 | 06/04/2022 | KOS Group | 1.80 | 8.00 | 41% |
| **Kos S.p.A** | **Bond 64ML€** | 64,000 | 18/10/2024 | KOS Group | 1.80 | 8.00 | 41% |
| | **Bond 35ML€** | 35,000 | 18/10/2025 | | | | |
| **Kos S.p.A** | **BEI Loan** | 20,000 | 29/06/2025 | KOS Group | 1.80 | 8.00 | 41% |
| **Kos S.p.A** | **CDP Loan** | - | 22/02/2026 | KOS Group | 1.80 | 8.00 | 41% |
| **Kos Care** | **Loan ICREA** | 3,947 | 30/06/2025 | | | | |
| | **Mortgage Villa Azzurra** | 3,750 | 30/09/2022 | KOS Group | 1.80 | | |
| | **Mortgage GE Tonengo D'Asti** | 2,571 | 18/12/2022 | | | | |
| **Sanatrix Gestione Srl** | **ICREA Loan** | 450 | 30/09/2023 | KOS Group | 1.80 | | |

At 31 December 2018, 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, there were no breaches of said clauses.

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 2018:

| (eur/million) | 31/12/2018 Total | 31/12/2018 Utilized | 31/12/2018 Available | 31/12/2017 Total | 31/12/2017 Utilized | 31/12/2017 Available |
|---|---|---|---|---|---|---|
| Short-term Lines ("Uncommitted"/at sight) | 70.8 | 10.9 | 59.9 | 56.6 | 3.3 | 53.3 |
| Long-term ("Committed"/contractualized) | 453.1 | 318.0 | 135.1 | 434.9 | 283.3 | 151.6 |
| **Total** | **523.9** | **328.9** | **195.0** | **491.5** | **286.6** | **204.9** |

## 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 2018 are provided below:

| Company | Enter date | Time | *Pay* | *Cap* | *Floor* | *Receive/Index* | Notional 31/12/18 | Notional 31/12/17 | *Fair Value* 31/12/18 | *Fair Value* 31/12/17 |
|---|---|---|---|---|---|---|---|---|---|---|
| Kos Care Srl | 2013 | Quarterly | 1.740% | | | Euribor 3M | 6,465 | 6,805 | (147) | (292) |
| Kos Care Srl | 2015 | Quarterly | 0.150% | | | Euribor 3M | 2,571 | 3,214 | (9) | (15) |
| Kos Care Srl | 2014 | Quarterly | 0.298% | | | Euribor 3M | 3,750 | 4,750 | (16) | (35) |
| Kos Care Srl | 2015 | Quarterly | 0.206% | | | Euribor 3M | 4,696 | 4,850 | (33) | (27) |
| Kos Care Srl | 2015 | Quarterly | 0.390% | | | Euribor 3M | 3,947 | 4,579 | (33) | (43) |
| Kos SpA | 2017 | Half-year | 0.385% | | | Euribor 6M | 13,000 | 13,000 | (105) | (78) |
| Kos SpA | 2017 | Half-year | 0.370% | | | Euribor 6M | 13,000 | 13,000 | (101) | (72) |
| ***Total Interest Rate Swap*** | | | | | | | **47,429** | **50,198** | **(444)** | **(562)** |
| Medipass Srl | 2011 | Quarterly | | 3.25% | | Euribor 3M | - | 111 | - | - |
| Kos Care Srl | 2014 FWD Start 2017 | Monthly | | 1.50% | | Monthly avarage Euribor 1M | 3,332 | 3,748 | 1 | 6 |
| Kos Care Srl | 2014 FWD Start 2016 | Monthly | | 1.50% | | Monthly avarage Euribor 1M | 2,829 | 3,181 | - | 2 |
| Kos Care Srl | 2014 FWD Start 2016 | Monthly | | 1.50% | | Euribor 3 M | 3,620 | 3,948 | - | 3 |
| ***Total Interest Rate Cap*** | | | | | | | **9,781** | **10,988** | **1** | **11** |
| ***Derivative instruments effective*** | | | | | | | **57,210** | **64,759** | **(443)** | **(572)** |
| Sanatrix Gestioni Srl | Cap - 2013 | Monthly | | 2.50% | | Euribor 6M | 2,078 | 2,542 | - | - |
| HSS Real Estate Srl | IRS - 2013 | Quarterly | 2.04% | | | Euribor 3M | 2,252 | 3,150 | (71) | (133) |
| Ecomedica Srl | IRS - 2013 | Monthly | 0.900% | | | Euribor 1M | - | 83 | - | - |
| Ecomedica Srl | IRS - 2015 | Monthly | 0.200% | | | Euribor 1M | 79 | 181 | - | (1) |
| Ecomedica Srl | IRS - 2016 | Monthly | -0.180% | | | Euribor 1M | 28 | 112 | - | - |
| Kos Care Srl | IRS - 2015 | Quarterly | 0.220% | | | Euribor 3M | 3,457 | 3,573 | (26) | (21) |
| ***Derivative instruments not effective*** | | | | | | | **7,894** | **9,641** | **(97)** | **(155)** |
| **Total** | | | | | | | **65,104** | **70,827** | **(540)** | **(706)** |

The total notional amount at 31 December 2018 was € 65,104 thousand. Overall, some 30% 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 2018 was hedged. This means that there is no overhedging 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 IFRS 9 (formal designation of a hedging relationship; documented, measurable and highly effective hedging relationship) are respected and 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 requirements of IFRS 9 are not fully met 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, three of which the Group took on after the acquisition of Ecomedica S.p.A.. Meanwhile, a 2015 contract entered into by KOS Care S.r.l. proved ineffective during the reporting period. The fair value of these contracts has been recognised in the Income Statement while the cash flow hedge for the contract that became ineffective in 2018 has also been reversed.

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.

The table below shows the following information on derivatives:

- the notional amount at 31 December 2018 and 2017, 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*.

| 31/12/18 | | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 9,700 | 43,545 | | (541) | 46 | (440) |
| - Cash flow hedge pursuant to IAS 39 Interest Rate Cap | 1,635 | 10,225 | 1 | | (10) | |
| **Total** | **11,335** | **53,770** | **1** | **(541)** | **36** | **(440)** |

| 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 Interest Rate Cap | 1,670 | 37,859 | 11 | | (17) | |
| **Total** | **5,723** | **65,104** | **11** | **(716)** | **214** | **(556)** |

(1) Represents the value of (assets)/liabilities recorded in the balance sheet 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 recorded in net equity as from the date of signature.

## 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 2018 (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 +€ 179 thousand (-€ 2,545 thousand at 31 December 2017) with an effect on equity of around +€179 thousand (- € 1,845 thousand at 31 December 2017).

# Notes to the Income Statement

## 4) Revenue

The Group's revenue for 2018 is analysed below. Prior year comparative figures are also shown together with the difference compared to prior year.

### Revenue by operating segment

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

| (eur/000) | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Long term care | 438,873 | 80% | 398,656 | 81% | 40,217 |
| Acute Care | 36,124 | 7% | 36,774 | 7% | ( 650 ) |
| Cancer treatment and diagnostic services | 69,881 | 13% | 55,091 | 11% | 14,790 |
| Other | 49 | 0% | 38 | 0% | 11 |
| **Total** | **544,927** | **100%** | **490,559** | **100%** | **54,357** |

The increase in revenue is due to:

- an increase in the Long term care segment compared to prior year, mainly thanks to acquisitions made in 2017 (that made a full year contribution in 2018). This effect, totalling € 27,674 thousand, mainly related to the integration of the following care facilities: Parco di Veio (impact of € 1,404 thousand), Villa dei Ciliegi and Casa Olga (impact of € 2,038 thousand), San Benedetto (€ 3,527 thousand), Arcugnano and Benevento (impact of € 18,573 thousand).

- revenue in the acute care, cancer treatment and diagnostics segment which increased by € 6,182 thousand compared to prior year, mainly thanks to new services launched and to the acquisition of Ecomedica S.p.A. at the end of 2017 (impact of € 5,314 thousand).

### Revenue by type of client

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

| (eur/000) | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Public | 339,996 | 62% | 307,574 | 63% | 32,422 |
| Private | 204,931 | 38% | 182,985 | 37% | 21,946 |
| **Total** | **544,927** | **100%** | **490,559** | **100%** | **54,368** |

The split of revenue by type of client shows that revenue from private customers remained substantially unchanged in proportion to revenue from public clients.

### Revenue by region

Revenue by region is shown in the table below:

| (eur/000) | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Lombardy | 153,030 | 28% | 150,785 | 33% | 2,245 |
| Trentino Alto Adige | 8,696 | 2% | 8,328 | 2% | 368 |
| Veneto | 33,429 | 6% | 22,890 | 5% | 10,539 |
| Piedmont | 47,854 | 9% | 46,725 | 10% | 1,129 |
| Liguria | 21,006 | 4% | 19,898 | 4% | 1,108 |
| Tuscany | 15,111 | 3% | 9,141 | 1% | 5,970 |
| Emilia Romagna | 65,210 | 12% | 60,929 | 12% | 4,281 |
| Marche | 129,297 | 24% | 121,326 | 23% | 7,971 |
| Abruzzo | 4,364 | 1% | 3,099 | 1% | 1,265 |
| Puglia | 3,400 | 1% | 3,722 | 1% | ( 322 ) |
| Lazio | 22,993 | 4% | 19,533 | 3% | 3,460 |
| Sicily | 367 | 0% | 654 | 1% | ( 287 ) |
| Other regions | 16,180 | 3% | 6,686 | 2% | 9,494 |
| Foreign countries | 23,990 | 3% | 16,843 | 2% | 7,147 |
| **Total** | **544,927** | **100%** | **490,559** | **100%** | **54,368** |

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

## *5 ) Purchases of goods*

In the year ended 31 December 2018, this item totalled € 39,840 thousand against € 35,454 thousand in 2017. These costs represented around 7.3% of revenue, broadly in line with prior year (7.2%). The impact relating to new acquisitions was € 2,715 thousand

The total cost for the year ended 31 December 2018 is analysed in detail below and compared with prior year.

| (eur/000) | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Food and beverages | 7,330 | 18% | 6,583 | 19% | 747 |
| Medical gases | 545 | 1% | 555 | 2% | ( 10 ) |
| Diagnostics consumables | 3,794 | 10% | 1,921 | 5% | 1,873 |
| Medical consumables | 6,134 | 15% | 4,936 | 14% | 1,198 |
| Medicines | 8,061 | 20% | 7,449 | 21% | 612 |
| Prosthetic materials and medical devices | 7,240 | 18% | 8,221 | 23% | ( 981 ) |
| Laboratory consumables | 1,614 | 4% | 1,477 | 4% | 137 |
| Generic consumables | 73 | 0% | 78 | 0% | ( 5 ) |
| Cleaning material | 1,166 | 3% | 1,045 | 3% | 121 |
| Other | 3,883 | 10% | 3,189 | 9% | 694 |
| **Total** | **39,840** | **100%** | **35,454** | **100%** | **4,386** |

## *6) Services*

Services totalled € 187,011 thousand for the year ended 31 December 2018 against € 173,197 thou-sand in 2017. The increase of € 13,814 thousand compared to prior year is mainly due to acquisitions made during 2017 and 2018 which had an impact of € 15,292 thousand.

The total cost for the year ended 31 December 2018 is analysed in detail below and compared with prior year.

| *(eur/000)* | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Legal, notarial and tax consulting | 2,145 | 1% | 2,242 | 1% | ( 97 ) |
| IT consulting | 1,807 | 1% | 1,708 | 1% | 99 |
| Technical consulting | 3,960 | 2% | 2,988 | 2% | 972 |
| Medical-nursing consulting | 45,735 | 24% | 41,168 | 24% | 4,567 |
| Fees to Directors | 2,119 | 1% | 1,682 | 1% | 437 |
| Fees to Statutory Auditors | 155 | 0% | 170 | 0% | ( 15 ) |
| Personnel services | 392 | 0% | 225 | 0% | 167 |
| Utilities | 12,052 | 6% | 10,772 | 6% | 1,280 |
| Maintenance and repairs | 15,365 | 8% | 12,839 | 7% | 2,526 |
| Insurance | 2,510 | 1% | 2,360 | 1% | 150 |
| Cleaning and surveillance | 1,535 | 1% | 988 | 1% | 547 |
| Subcontracting costs | 34,913 | 19% | 37,661 | 22% | ( 2,748 ) |
| Care and laboratory services | 9,412 | 5% | 8,727 | 5% | 685 |
| Catering services | 2,648 | 1% | 2,229 | 1% | 419 |
| Lease fees | 1,703 | 1% | 1,678 | 1% | 25 |
| Rents | 33,207 | 18% | 29,897 | 17% | 3,310 |
| Other services | 17,353 | 9% | 15,863 | 9% | 1,490 |
| **Total** | **187,011** | **100%** | **173,197** | **100%** | **13,814** |

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

The following schedules show the fees relating to 2018 for audit services and other services rendered by the independent auditor and other entities belonging to its network.

Schedule 1)

Fees (*) relating to 2018 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. | 44 |

(*) Fees do not include VAT, expenses and any reimbursement of Consob supervisory contribution

Schedule 2)

Fees relating to 2018 for services rendered by the independent auditor to other Group companies. Modificare "Subsidiaries companies" in "Subisidiaries"

| | | | |
|---|---|---|---|
| Audit | KPMG S.p.A. | Subsidiaries companies | 273 |

## *7 ) Personnel expense*

Personnel expense for the year ended 31 December 2018 totalled € 200,933 thousand against € 181,999 thousand in 2017.

The increase compared to prior year is partly due to acquisitions made and facilities opened in 2017 and 2018 which had an impact of € 13,982 thousand.  It is also due to the insourcing of several previously outsourced services which has led to an increase in personnel costs. As a percentage of revenue, personnel costs fell from 37.1% in 2017 to 36.9% in 2018. We also note the inclusion of the valuation of new stock option plans with an impact of € 385 thousand (€385 thousand in prior year).

The total personnel expense for the year ended 31 December 2018 is analysed in detail below and compared with prior year:

| (eur/000) | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Wages and salaries | 145,744 | 73% | 132,732 | 73% | 13,012 |
| Social security charges | 41,935 | 21% | 36,036 | 20% | 5,899 |
| Employee termination benefits | 10,298 | 5% | 9,148 | 5% | 1,150 |
| Stock option plan valuation | 385 | 0% | 385 | 0% | - |
| Other costs | 2,571 | 1% | 3,698 | 2% | ( 1,127 ) |
| **Total** | **200,933** | **100%** | **181,999** | **100%** | **18,934** |

The table below shows the actual number of employees as at 31 December 2018 and 31 December 2017:

| | 31/12/18 | 31/12/17 |
|---|---|---|
| Executives/Managers | 26 | 27 |
| White collar workers | 3,954 | 3,835 |
| Medical staff, carers and workers | 3,026 | 2,559 |
| **Total** | **7,006** | **6,421** |
| **Employees - Average** | **6,777** | **5,939** |

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 (€ 550 thousand in 2018 and € 965 thousand in 2017) is recognised under services. As at 31 December 2018, all seconded workers had been recalled while there were 20 seconded at 31 December 2017.

### *8) Other operating income*

Other operating income for the year ended 31 December 2018 totalled € 4,866 thousand, a decrease compared to € 6,449 thousand in 2017.

It may be analysed as follows:

| (eur/000) | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Ordinary prior year income | 1,624 | 33% | 3,288 | 51% | ( 1,664 ) |
| Gains on the sale of assets | 20 | 0% | 1,024 | 16% | ( 1,004 ) |
| Other revenue and income | 3,222 | 66% | 2,137 | 33% | 1,085 |
| **Total** | **4,866** | **100%** | **6,449** | **100%** | **( 1,583 )** |

Ordinary prior year income includes differences between estimated provisions/accruals made in prior year and the actual amounts.

### *9) Other operating costs*

Other operating costs amounted to € 20,152 thousand in 2018 against € 18,480 thousand in 2017. This item mainly consists of non-deductible input VAT (€ 13,731 thousand in 2018 against € 12,583 thousand in 2017) and other duties and taxes. Ordinary prior year expense include differences on provisions and accruals made when preparing prior year financial statements. The impact on this item regarding acquisitions made in 2017 and 2018 was € 1,594 thousand.

| *(eur/000)* | **2018** | **%** | **2017** | **%** | **Var.** |
|---|---|---|---|---|---|
| Taxes and duties | 18,046 | 90% | 16,518 | 89% | 1,528 |
| Ordinary prior year expense | 1,175 | 6% | 894 | 5% | 281 |
| Ordinary losses | 67 | 0% | 29 | 0% | 38 |
| Sundry operating costs | 864 | 4% | 1,039 | 6% | ( 175 ) |
| **Total** | **20,152** | **100%** | **18,480** | **100%** | **1,672** |

## *10) Amortisation, depreciation, impairment losses and provisions*

At 31 December 2018, this item amounted to € 35,534 thousand against € 34,032 thousand in 2017, as follows:

| *(eur/000)* | **2018** | **%** | **2017** | **%** | **Var.** |
|---|---|---|---|---|---|
| Depreciation | 29,614 | 83% | 27,938 | 82% | 1,676 |
| Amortisation | 931 | 3% | 884 | 3% | 47 |
| Loss allowance | 2,462 | 7% | 2,085 | 6% | 377 |
| Other provisions | 1,767 | 5% | 2,318 | 7% | ( 551 ) |
| Other impairment losses | 760 | 2% | 807 | 2% | ( 47 ) |
| **Total** | **35,534** | **100%** | **34,032** | **100%** | **1,502** |

The increase is partly due to the aforementioned acquisitions and the new facilities opened during the year (effect of € 1,107 thousand).

We highlight the € 610 thousand impairment of goodwill relating to Medipass Leeds Ltd and Medipass Belfast Ltd (€617 thousand in 2017) and the impairment of other property plant and equipment totalling € 150 thousand.

## *11) Financial income*

Financial income amounted to € 386 thousand in 2018 against € 1,183 thousand in 2017, as shown below:

| *(eur/000)* | **2018** | **%** | **2017** | **%** | **Var.** |
|---|---|---|---|---|---|
| Interest income on bank accounts | 10 | 3% | 3 | 0% | 7 |
| Interest income on derivatives | 59 | 15% | 373 | 32% | ( 314 ) |
| Interest income on arrears | 9 | 2% | 422 | 36% | ( 413 ) |
| Other financial income | 308 | 80% | 385 | 33% | ( 77 ) |
| **Total** | **386** | **100%** | **1,183** | **100%** | **( 797 )** |

“Other financial income” mainly includes interest from the tax authorities on rebate claims settled in 2018.

“Interest income on arrears” includes late payment interest accruing 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)* | **2018** | **%** | **2017** | **%** | **Var.** |
|---|---|---|---|---|---|
| Dividends | 32 | | 33 | | ( 1 ) |

The dividends of € 32 thousand includes 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 € 13,108 thousand compared to € 12,667 thousand in 2017, as shown below:

| (eur/000) | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Interest expense on bank accounts | 85 | 1% | 90 | 1% | ( 5 ) |
| Interest expense on derivatives | 485 | 4% | 739 | 6% | ( 254 ) |
| Interest expense on loans and borrowings | 7,497 | 57% | 5,156 | 41% | 2,341 |
| Interest expense on leases | 1,674 | 13% | 2,361 | 19% | ( 687 ) |
| Third party loans and borrowings | 284 | 2% | 209 | 2% | 75 |
| Exchange losses | 137 | 1% | 113 | 1% | 24 |
| Other financial expenses | 2,946 | 22% | 3,999 | 32% | ( 1,053 ) |
| **Total** | **13,108** | **100%** | **12,667** | **100%** | **441** |

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

## 13) Adjustments to financial assets

"Adjustments to financial assets" include impairment of several non-controlling investments and the effect of the application of IFRS9.

## 14) Income taxes

Income taxes amount to € 17,237 thousand, more than in 2017, as analysed below:

| (eur/000) | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| Current taxes - IRES | 12,230 | 71% | 10,245 | 90% | 1,985 |
| Current taxes - IRAP | 4,663 | 27% | 4,143 | 36% | 520 |
| Deferred tax expense/(income) | 344 | 2% | ( 2,996 ) | -26% | 3,340 |
| **Total** | **17,237** | **100%** | **11,392** | **100%** | **5,845** |

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

| | 2018 | % | 2017 | % | Var. |
|---|---|---|---|---|---|
| **Effective tax rate** | **32%** | | **27%** | | |

Income taxes increased from 27% of pre-tax profit in 2017 to around 32% in 2018. The increase is mainly due to the start-up phase of a number of companies – in particular, Casa di Cura S. Alessandro and Clearmedi (India) – whose tax losses do not give rise to the recognition of deferred tax assets as it is not reasonably certain that the losses will be recovered in future through offset against future taxable income.

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 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)* | | 2018 | 2017 |
|---|---|---|---|
| Pre-tax profit in the financial statements | | 53,553 | 42,084 |
| **Theoretical tax rate (24% of the pre-tax profit)** | **A** | **12,853** | **10,100** |
| Tax effect of non-deductible costs | b | ( 1,523 ) | ( 1,834 ) |
| Tax effect of prior year losses generating deferred tax assets | b | ( 319 ) | ( 496 ) |
| Tax effect of prior year losses not generating deferred tax assets | b | 379 | ( 118 ) |
| Other | b | 1,184 | ( 403 ) |
| **Total effect of addbacks and other - (b)** | **B** | **( 279 )** | **( 2,851 )** |
| **Income taxes** | **A + B** | **12,574** | **7,249** |
| IRAP and other taxes | C | 4,663 | 4,143 |
| **Total** | **"A+B"+C** | **17,237** | **11,392** |

# Notes to the Statement of Financial Position

## Non-current assets

### *15) Intangible assets*

At 31 December 2018, net intangible assets amounted to € 291,137 thousand against € 276,680 thousand at 31 December 2017.

| | Opening balance | | | Changes in the year | | | | | | | | | Closing balance | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Historical cost | Impairment losses and accumulated amortisation | Carryng amount as at 31/12/2017 | 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 31/12/2018 |
| *(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 | 10,091 | (8,844) | 1,247 | 927 | 15 | (10) | | | 47 | (10) | 10 | (783) | 11,070 | (9,627) | 1,443 |
| Goodwill | 292,986 | (18,639) | 274,347 | 14,004 | 2,194 | (1,397) | (77) | 30 | | (98) | | (610) | 309,009 | (20,616) | 288,393 |
| Assets under development and payments on account | 150 | - | 150 | 474 | | | | | (234) | | | | 390 | - | 390 |
| Other intangible assets | 1,556 | (620) | 936 | 152 | | | (30) | 2 | | | | (149) | 1,678 | (767) | 911 |
| **Total** | **304,783** | **(28,103)** | **276,680** | **15,557** | **2,209** | **(1,407)** | **(107)** | **32** | **(187)** | **(108)** | **10** | **(1,542)** | **322,147** | **(31,010)** | **291,137** |

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 2017:

| *(eur/000)* | *31/12/2018* | *%* | *31/12/2017* | *%* | *Var.* |
|---|---|---|---|---|---|
| Nursing homes | 251,651 | 87% | 236,849 | 86% | 14,801 |
| Cancer treatment and diagnostic services | 36,226 | 13% | 36,982 | 13% | (756) |
| Acute Care | 0 | 0% | 0 | 0% | 0 |
| Corporate | 516 | 0% | 516 | 0% | 0 |
| **Total** | **288,393** | **100%** | **288,393** | **100%** | **14,045** |

The increase of € 14,045 thousand recognised at 31 December 2018 is due to: the acquisition of Casa di cura Sant'Alessandro S.r.l. (€ 3,675 thousand), the acquisition of the two companies Prora S.r.l. and Ideas S.r.l. (€ 4,582 thousand), the acquisition of Ippofin S.r.l. and Villa dei Ciliegi S.r.l. (€ 2,468 thousand), the acquisition of Villa dei Pini S.r.l. (€ 3,377 thousand) and the acquisition of Laboratorio Delta S.r.l. (€ 698 thousand). These increases were only partially offset by the impairment of goodwill recognised on Medipass Leeds and Medipass Belfast (€ 610 thousand). The translation of financial statements prepared in foreign currency had a negative exchange rate effect of € 47 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 consolidated financial statements at 31 December 2018. 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 | 3,917 |
| | Liguria | 10,735 |
| | Emilia Romagna | 17,359 |
| | Veneto | 20,457 |
| | Marche | 63,302 |
| | Lazio | 6,445 |
| | Trentino | 2,715 |
| | Campania | 9,242 |
| | Umbria | 0 |
| *Total Long Term Care (A)* | | **251,651** |
| *Acute Care (B)* | | **0** |
| Cancer Treatment and Diagnostics | Italy | 31,504 |
| | United Kingdom | 4,723 |
| | India | 0 |
| *Total Cancer Treatment and Diagnostics (C)* | | **36,227** |
| *Corporate (D)* | | *516* |
| *Total Goodwill (A+B+C+D)* | | *288,394* |

The recoverability of the amounts recognised 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 16 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 2019-2023 (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. For the Indian CGU, as inflation was expected to be higher than that level, a growth rate of 4% was adopted. 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 6.3% (against 5.8% in 2017) for assets in Italy; 4.8% (5.4% in 2017) for assets in the UK; and 10.35% for assets in India (9.5% in 2017).

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 property, plant and equipment consider the impact of these measures on future earnings.

The test performed did not identify any impairment.

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), determining the level of such variables that make value in use equal to carrying amount as shown below:

1) 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, except for Liguria, Tuscany and Lazio Regions for which the cover becomes negative if a growth rate of zero is considered.

2) 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 in the test for all of the countries considered in the first test level. 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.

3) 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. As the cover is negative by a negligible amount, it is brought to zero using a WACC slightly lower than that used for the CGUs in Italy i.e. 6.02%.

## *16) Property, Plant and Equipment*

At 31 December 2018, net property, plant and equipment amounted to € 349,040 thousand against € 323,113 thousand at 31 December 2017.

The table shows a breakdown of this item and changes thereon in 2018.

| | Opening balance | | | Changes in the year | | | | | | | | | Closing balance | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Historical cost | Impairment losses and accumulated | Carryng amount as at 31/12/2017 | Purchases | Changes in consolidation scope | | Exchange differences | | Other changes | Net disposals | | Impairment losses and amortisat | Historical cost | Impairment losses and accumulated | Carryng amount as at 31/12/2018 |
| *(eur/000)* | | | | | Historical cost | Impairment losses and accumulated amortisation | Historical cost | Impairment losses and accumulated amortisation | | Historical cost | Impairment losses and accumulated amortisation | | | | |
| Land | 27,204 | ( 522 ) | 26,682 | 1,310 | 3,695 | | | | | | | | 32,209 | ( 522 ) | 31,687 |
| Buildings | 203,108 | ( 50,276 ) | 152,832 | 1,335 | 9,015 | ( 3,179 ) | | | 7,037 | ( 609 ) | 493 | ( 6,987 ) | 219,886 | ( 59,949 ) | 159,937 |
| Pland and Machinery | 104,025 | ( 62,846 ) | 41,179 | 1,602 | 741 | ( 598 ) | | | 87 | ( 284 ) | 227 | ( 8,219 ) | 106,171 | ( 71,436 ) | 34,735 |
| Industrial and commercial equipment | 80,651 | ( 47,943 ) | 32,708 | 13,704 | 1,219 | ( 1,024 ) | ( 827 ) | 200 | 593 | ( 1,197 ) | 882 | ( 6,388 ) | 94,143 | ( 54,273 ) | 39,870 |
| Other assets | 112,591 | ( 65,691 ) | 46,900 | 10,233 | 1,364 | ( 1,058 ) | ( 74 ) | | 1,764 | ( 1,825 ) | 1,772 | ( 7,995 ) | 124,053 | ( 72,972 ) | 51,081 |
| Assets under construction and payments on account | 22,812 | | 22,812 | 18,212 | | | | | ( 9,294 ) | | | | 31,730 | | 31,730 |
| **Total** | **550,391** | **( 227,278 )** | **323,113** | **46,396** | **16,034** | **( 5,859 )** | **( 901 )** | **200** | **187** | **( 3,915 )** | **3,374** | **( 29,589 )** | **608,192** | **( 259,152 )** | **349,040** |

Land and buildings are recognised at historical cost. In order to test their carrying amount, independent appraisals were performed at 31 December 2018.

Fair value was determined using generally accepted valuation methods and principles based on the most widely applied valuation criteria. Following the valuations performed in 2018, the historical cost of certain assets was adjusted by around € 150 thousand to bring it into line with fair value.

Increases for the year, amounting to € 46 million, include ordinary capex (restoration of current operating capacity - around € 15 million), capex to comply with laws and regulations (€ 5 million) and capex on business development/expansion (€ 26 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 Novara, on which the Group plans to build two nursing homes once planning permission has been obtained;
- € 4.6 million has been invested on the construction of a 100 bed nursing home in Campofilone; construction work commenced in 2018;
- € 16 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;
- € 3.5 million relating to the construction of two new 120-bed nursing homes in the Municipalities of Vimercate and Grosseto;
- € 1.7 million relating to work on facilities that are already operational and new buildings where work has just begun;

“Business combinations” refer to acquisitions made in 2018 i.e. Casa di cura Sant’Alessandro S.r.l., Prora S.r.l., Ideas S.r.l., Laboratorio analisi chimiche delta S.r.l., Ippofin S.r.l., Villa dei Ciliegi di Monteveglio S.r.l. and Villa dei Pini S.r.l.

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 2018 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 31/12/2018 | Buildings | Plant and Equipment | Industrial and commercial equipment | Land | Furniture and fittings | Other |
|---|---|---|---|---|---|---|---|---|---|
| Monza property | 11,212 | (4,381) | 6,831 | 5,535 | | 555 | 741 | | |
| Cinisello property | 23,642 | (3,972) | 19,670 | 16,644 | | 1,844 | 1,182 | | |
| Montecosaro property | 6,820 | (921) | 5,899 | 4,658 | | | 1,241 | | |
| Foligno property | 11,141 | (1,253) | 9,888 | 9,550 | | | 338 | | |
| Porto Potenza Picena - Pad.F property | 10,104 | (1,036) | 9,068 | 8,907 | | | 161 | | |
| Ascoli property | 6,820 | (392) | 6,428 | 6,428 | | | | | |
| Industrial and commercial equipment | 2,055 | (1,522) | 533 | | 533 | | | | |
| Plant and equipment | 134 | (134) | 0 | | | | | | |
| **Total** | **71,928** | **(13,611)** | **58,317** | **51,722** | **533** | **2,399** | **3,663** | **0** | **0** |

## *17) Investment property*

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

| | Opening balance | | | Changes in the year | | | | | | | | | Closing balance | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Historical cost | Impairment losses and accumulated amortisation | Carryng amount as at 31/12/2017 | 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 31/12/2018 |
| *(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 | 7,870 | ( 3,179 ) | 4,691 | | | | | | | | | ( 174 ) | 7,870 | ( 3,353 ) | 4,517 |
| **Total** | **7,870** | **( 3,179 )** | **4,691** | - | - | - | - | - | - | - | - | **( 174 )** | **7,870** | **( 3,353 )** | **4,517** |

Investment property was valued upon acquisition and again at 31 December 2018.

## *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 2018.

These 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 € 48 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) 31/12/2018 | Carrying amount (eur) 31/12/2017 |
|---|---|---|---|---|---|---|---|---|
| Osimo Salute S.p.A | Osimo (AN) | 750,000 | € | Abitare il tempo S.r.l | 25.50% | 14.03% | 893 | 893 |
| Fondo Spazio Sanità | Rome | 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% | 808 | 856 |
| Studio laboratorio Biemme S.r.l. | Castelraimondo (MC) | 10,000 | € | Sanatrix Gestioni S.r.l. | 100.00% | 100.00% | 425 | - |
| Other | | | | | | | 16 | 20 |
| **Total** | | | | | | | **3,042** | **2,669** |

** Equity-accounted investees*

## *19) Other non-current receivables*

The following table provides a breakdown of this item:

| *(eur/000)* | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| Tax assets | 370 | 2,301 | ( 1,931 ) |
| Security deposits | 1,239 | 22 | 1,217 |
| Receivables from social security institutions | 165 | 151 | 14 |
| Other assets | 2,619 | 652 | 1,967 |
| **Total** | **4,393** | **3,126** | **1,267** |

This item includes receivables from social security institutions and security deposits plus other assets, The decrease in tax assets refers to the reimbursement of an extraordinary tax asset for the IRES rebate of companies not included in the tax consolidation scheme (Article 2(1) of Decree Law no 201/2011) of around € 1,900 thousand.

"Other assets" include 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)* | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| | Difference | Tax | Difference | Tax |
| Temporary difference in current assets | 14,093 | 3,401 | 12,089 | 2,912 |
| Temporary difference in non-current assets | 13,288 | 3,382 | 12,056 | 3,133 |
| Temporary difference in current liabilities | 4,464 | 1,185 | 4,034 | 1,077 |
| Temporary difference in provisions for personnel | 17,261 | 4,128 | 15,705 | 3,777 |
| Temporary difference in provisions for risks and charges | 23,689 | 5,830 | 21,011 | 5,791 |
| Temporary difference in financial instruments | 662 | 168 | 840 | 211 |
| Temporary difference from tax losses | 10,922 | 3,281 | 12,623 | 3,717 |
| **Total** | **84,379** | **21,375** | **78,358** | **20,618** |

| *(eur/000)* | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| | Difference | Tax | Difference | Tax |
| Temporary difference in current assets | 11 | 4 | 13 | 4 |
| Temporary difference in non-current assets | 58,511 | 16,407 | 35,512 | 14,693 |
| Temporary difference in provisions for personnel | ( 697 ) | ( 168 ) | ( 1,220 ) | ( 294 ) |
| Temporary difference in financial instruments | 2 | 1 | 11 | 3 |
| **Total** | **57,827** | **16,244** | **34,316** | **14,406** |

With regard to deferred tax assets:

- the temporary differences in current assets mainly relate to the loss allowance;
- 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 provisions for personnelmainly 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 said company, as occurred in 2007;
- the temporary differences in provisions for personnel are mainly due to the different treatment of the post-employmene benefits for IFRS purposes (IAS 19).

Tax losses not yet used for the calculation of deferred taxesamount to € 3,754 thousand. For reasons of prudence, no deferred tax assets have recognised on such losses. A detailed analysis is provided below:

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| | | |
| Prior year losses | 15,449 | 12,723 |
| | | |
| of which: | | |
| - tax losses that generate deferred tax assets | 10,922 | 12,623 |
| - tax losses that did not generate deferred tax assets | 4,527 | 100 |

Deferred taxes recognised directly in equity during the year were negative and amounted to € 737 thousand. They mainly refer to acquisitions made during the year, to the effect of applying the new IFRS 9 and to the tax effect of the fair value measurement of instruments used to hedge the interest rate risk.

Changes in deferred tax assets and liabilities compared to 31 December 2017 are analysed below, inclusive of the effects onequity not taken through profit or loss. The effects of the acquisition made in 2018, specifically

Casa di Cura Sant'Alessandro S.r.l. and Villa dei Pini S.r.l.. which had an impact of € 192 thousand on deferred tax assets and € 836 thousand on deferred tax liabilities.

**Changes in deferred tax assets and liabilities**

| *(eur/000)* | 31/12/2017 | Use of deferred taxes from previous year | Deferred taxes for the year | Changes in consolidation scope | Other changes | 31/12/2018 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| - in profit or loss | 19,256 | (2,203) | 2,806 | | | 19,859 |
| - in equity | 1,362 | | 70 | 192 | (108) | 1,516 |
| **Total** | **20,618** | **(2,203)** | **2,876** | **192** | **(108)** | **21,375** |

| *(eur/000)* | 31/12/2017 | Utilizzo imposte differite di esercizi precedenti | Imposte differite sorte nell'esercizio | Variazioni di perimetro | Other changes | 31/12/2018 |
|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | | |
| - in profit or loss | (8,072) | 72 | (1,019) | | | (9,019) |
| - in equity | (6,334) | 38 | (93) | (836) | | (7,225) |
| **Total** | **(14,406)** | **110** | **(1,112)** | **(836)** | **-** | **(16,244)** |
| **Net deferred taxes** | **6,212** | **(2,093)** | **1,764** | **(644)** | **(108)** | **5,131** |

During the year, deferred tax assets recognised through profit or loss had a positive impact of € 590 thousand while the negative impact relating to accounting for deferred tax liabilities was equal to € 947 thousand.

The following table shows changes in deferred tax assets and liabilities in 2017.

| *(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** |

# Current assets

## ***21) Inventories***

At 31 December 2018, inventories amounted to € 3,634 thousand. The table contains a breakdown of the categories of goods in inventory together with prior year comparative figures.

| (eur/000) | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| Other goods | 249 | 130 | 119 |
| Healthcare goods | 3,172 | 3,018 | 154 |
| Food product inventory | 213 | 210 | 3 |
| **Total** | **3,634** | **3,358** | **276** |

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) | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| Receivables from parent company | 1,574 | 1,392 | 182 |
| **Total** | **1,574** | **1,392** | **182** |

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 2018, trade receivables amounted to € 96,885 thousand, an increase of € 161 thousand on 31 December 2017. The balance is analysed as follows:

| (eur/000) | 31/12/2018 | % | 31/12/2017 | % | Var. |
|---|---|---|---|---|---|
| Receivables from private customers | 35,127 | 28% | 31,243 | 26% | 3,884 |
| Receivables form public-sector customers | 88,290 | 72% | 89,687 | 74% | (1,397) |
| Loss allowance | (26,532) | | (24,206) | | (2,326) |
| **Total** | **96,885** | **100%** | **96,724** | **100%** | **161** |

A specific loss allowance is created to bring trade receivables into line with their estimated realisable amount. Allocations to the loss allowance are made based on a detailed assessment of each receivable balance, taking account of overdue balances. During the year, the allowance was increased by € 2,462 thousand, net of the impairment of interest on arrears.

The loss allowance includes a prudent allowance made upon the invoicing of interest on arrears, mainly to public sector customers.  This allowance stood at € 6,613 thousand at 31 December 2018, in line with the figure of € 6,621 thousand at 31 December 2017.  In accordance with IFRS 9, the allowance was calculated based on an expected credit loss model. The Group’s trade receivables of all sections were impaired by a percentage ranging from 1% for receivables not overdue up to 100% for the oldest receivables. As a percentage of gross trade receivables, the loss allowance has increased from 20% at 31 December 2017 to 21.5% at 31 December 2018. This increase is mainly due to the first-time application of IFRS 9 which had an effect of € 1,106 thousand.

For details of changes in the loss allowance, see Note *“3.3 Additional disclosures on financial assets”*.

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

Trade receivables at 31 December 2018 and 2017 are broken down by region in the table below:

| (eur/000) | 31/12/2018 | % | 31/12/2017 | % | Var. |
|---|---|---|---|---|---|
| Lombardy | 6,952 | 7% | 7,238 | 7% | ( 286 ) |
| Trentino Alto Adige | 616 | 1% | 696 | 1% | ( 80 ) |
| Veneto | 5,395 | 6% | 4,994 | 5% | 401 |
| Piedmont | 5,811 | 6% | 6,269 | 6% | ( 458 ) |
| Liguria | 2,483 | 3% | 2,880 | 3% | ( 397 ) |
| Tuscany | 3,133 | 3% | 2,149 | 2% | 984 |
| Emilia Romagna | 8,702 | 9% | 11,070 | 11% | ( 2,368 ) |
| Marche | 30,402 | 31% | 37,923 | 39% | ( 7,521 ) |
| Lazio | 11,176 | 12% | 12,182 | 13% | ( 1,006 ) |
| Campania | 6,140 | 6% | 2,650 | 3% | 3,490 |
| Sicily | 225 | 0% | 81 | 0% | 144 |
| Other regions | 5,046 | 5% | 1,263 | 1% | 3,783 |
| Foreign countries | 10,804 | 11% | 7,329 | 8% | 3,475 |
| **Total** | **96,885** | **100%** | **96,724** | **100%** | **161** |

At 31 December 2018 and 31 December 2017, there were no trade receivables due after more than five years.

## 24) Other assets

At 31 December 2017, other assets amounted to € 9,533 thousand, a decrease of € 403 thousand compared to 31 December 2017, as detailed below:

| (eur/000) | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| Receivables from associates | 105 | 105 | - |
| Receivables from others | 6,512 | 7,367 | ( 855 ) |
| Tax assets | 2,916 | 2,464 | 452 |
| **Total** | **9,533** | **9,936** | **( 403 )** |

"Tax assets" mainly include VAT assets of € 1,024 thousand ( € 509 thousand at 31 December 2017) and IRES and IRAP payments on account totalling around € 599 thousand (€ 440 thousand at 31 December 2017).

Other assets mainly include the credit for payments on account made to health and safety institution INAIL, advances to suppliers, sundry deposits, receivables due to non-recourse factoring and prepaid expenses and accrued income mainly consisting of prepaid rent. The decrease compared to prior year is mainly due to reductions in guarantee deposits and advances to suppliers at the reporting date.

At 31 December 2018 and 31 December 2017, there were no other assets due after more than five years.

## 25) Financial assets

The balance of € 14,674 thousand at 31 December 2018 has decreased compared to 31 December 2017 (€ 17,049 thousand), mainly thanks to improved collections. It mainly reflects the inclusion of receivables from non-recourse factoring, as well as the positive fair value (€ 3 thousand) of the derivative instruments agreed to hedge the risk of interest rate fluctuation.

## 26) Cash and cash equivalents

Cash and cash equivalents totalled € 55,334 thousand at 31 December 2018, an increase of € 22,514 thousand on 31 December 2017. They can be broken down as follows:

| (eur/000) | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| Bank and postal deposits | 54,861 | 32,369 | 22,492 |
| Cash and cash equivalents on hand | 245 | 250 | ( 5 ) |
| Cheques | 228 | 201 | 27 |
| **Total** | **55,334** | **32,820** | **22,514** |

Changes in cash and cash equivalents in 2018 are analysed in the statement of cash flows.

Following the application of the new IFRS9, the carrying amount of these assets has been restated at fair value by adjusting bank deposits to take account of the creditworthiness of the banks used by the Group. This process led to an impairment adjustment of € 70 thousand.

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

The Group's net financial debt is € 259,433 thousand against € 237,145 thousand at 31 December 2017. For more information, see the note on the "Net financial debt".

## 27) EQUITY

The following table shows changes in equity during the year:
(vedere le correzioni a mano fatte per gli schemi)

| | 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 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** |
| IFRS 9 impact | | | | | | | **(876)** | | | **(876)** | | **(69)** | **(945)** |
| **BALANCE AT 31 DECEMBER 2017** | **8,848** | **1,770** | **118,562** | **1,832** | **(559)** | **(2,128)** | **128,562** | **194** | **29,049** | **286,130** | **1,643** | **4,835** | **292,608** |
| Share capital increase | | | | | | | | | | 0 | | 573 | 573 |
| Profit for the year | | | | | | | | | 35,168 | 35,168 | 1,148 | | 36,316 |
| **Other comprehensive income** | | | | | | | | | | | | | |
| Changes in cash flow hedge reserve | | | | | 116 | | | | | 116 | | | 116 |
| Changes in post-employment benefit valuation reserve | | | | | | 506 | | | | 506 | | 11 | 517 |
| Translation differences | | | | | | | | (153) | | (153) | | (4) | (157) |
| **Total other comprehensive income** | **0** | **0** | **0** | **0** | **116** | **506** | **0** | **(153)** | **35,168** | **35,637** | **1,148** | **7** | **36,792** |
| Increase in stock option reserve | | | | 384 | | | | | | 384 | | | 384 |
| Acquisition of non-controlling interests (CMH) | | | | | | | (58) | | | (58) | | 58 | 0 |
| Acquisition of non-controlling interests (STX) | | | | | | | (1,668) | | | (1,668) | | (1,310) | (2,978) |
| Allocation of prior year profit | | | | | | | 29,049 | | (29,049) | 0 | (1,643) | 1,643 | 0 |
| Dividends and reserves distribuited to Shareholders | | | (29,004) | | | | | | | (29,004) | | (728) | (29,732) |
| Utilisation of share premium | | | (3,545) | | | | 3,545 | | | 0 | | | 0 |
| **BALANCE AT 31 DECEMBER 2018** | **8,848** | **1,770** | **86,013** | **2,216** | **(443)** | **(1,622)** | **159,430** | **41** | **35,168** | **291,421** | **1,148** | **5,078** | **297,647** |

## *Share capital*

Share capital was fully subscribed and paid at 31 December 2018. 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 2018 are shown in the following table:

| 31/12/2018 | Outstanding options at 1 January | | 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 | 3.38 | | | | | | | 1,661,083 | 3.05 | 14.4 | 1,661,083 | 3.05 | 31/12/2014 | 17/05/2033 |
| Stock Option '16 | 1,500,000 | 7.26 | | | | | 5,000 | 7.26 | 1,495,000 | 7.17 | 14.4 | 0 | 0.00 | 17/05/2023 | 17/05/2033 |
| **Total** | **3,161,083** | **5.22** | | | | | | | **3,156,083** | **5.00** | **14.4** | **1,661,083** | **3.05** | | |

The Group 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 2018.

## Reserves

### *Legal reserve*

The legal reserve amounts to € 1,770 thousand and did not increase during 2018.

### *Share premium reserve*

The share premium reserve amounts to € 86,013 thousand and has decreased by € 32,549 thousand compared to 31 December 2017. This decrease is due to the distribution of reserves of € 29,004 thousand and to € 3,545 thousand allocated to retained earnings.

### *Valuation reserves*

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

| Valuation reserves (eur/000) | 31/12/2017 | Increase | Decrease | Changes in intrinsic value | 31/12/2018 |
|---|---|---|---|---|---|
| Cash flow hedges | (559) | | | 116 | (443) |
| Stock option plans | 1,832 | 384 | | | 2,216 |
| Post-employment benefits | (2,128) | | 506 | | (1,622) |
| **Total** | **(855)** | **384** | **506** | **116** | **151** |

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

The ***Cash flow hedging 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 benefits 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 parent company KOS S.p.A. of part of the share premium reserve. The reserve also includes consolidation differences emerging on the acquisition of non-controlling interests in companies already controlled by the Group. We highlight the effect of € 876 thousand on opening balances of the first-time application of IFRS9 to balances from the 2017 financial statements.

### *Equity – non-controlling interests*

Equity attributable to non-controlling interests, amounting to € 6,226 thousand (€ 6,547 thousand at 31 December 2017), mainly regards non-controlling interests in companies consolidated on a line by line basis. The decrease compared to 31 December 2017 is primarily due to the payment of dividends by Abitare il tempo S.r.l. (€ 728 thousand) and to the acquisition of part of the non-controlling interests in Sanatrix S.r.l., as only partially offset by net profit for the year (€ 1,148 thousand).

| *(eur/000)* | | | |
|---|---|---|---|
| **Company** | **Non-controlling interests** | **% of direct non-controlling interests** | **Reserves attr. to NC interests** |
| Abitare il Tempo S.r.l. | 46% | 46% | 4,002 |
| Fidia S.r.l | 40% | 40% | 111 |
| KOS Servizi Società Consortile R.L | 3% | 0% | -18 |
| Sanatrix Gestioni S.r.l. | 10% | 0% | 1,073 |
| Sanatrix S.r.l. | 10% | 10% | 764 |
| Medipass Healthcare Ltd | 2% | 2% | 18 |
| ClearMedi Healthcare Ltd | 3% | 0% | -50 |
| ClearView Healthcare Ltd | 15% | 15% | 128 |
| Medipass Healthcare Leeds & Belfast Ltd | 2% | 0% | -41 |
| Medipass Leeds Ltd | 2% | 0% | 69 |
| Medipass Belfast Ltd | 2% | 0% | 85 |
| Ecomedica S.p.A. | 2% | 2% | 85 |
| **Total** | | | **6,226** |

## *28) Liabilities and financial liabilities*

At 31 December 2018, these amounted to € 329,440 thousand against € 287,366 thousand at 31 December 2017, an increase of € 42,074 thousand.

The following table contains a breakdown of financial liabilities by maturity date as at 31 December 2018 and 31 December 2017.

| *(eur/000)* | 31/12/2018 | Within the year | 1-5 years | Over five years | 31/12/2017 | Within the year | 1-5 years | Over five years |
|---|---|---|---|---|---|---|---|---|
| Bank overdrafts | **10,892** | 10,892 | | | **3,330** | 3,330 | | |
| Collateral loans | **44,417** | 7,514 | 31,041 | 5,862 | **44,384** | 7,171 | 27,370 | 9,843 |
| Loans | **109,895** | 1,058 | 98,896 | 9,941 | **66,070** | 1,312 | 64,758 | - |
| Bond loan | **99,071** | 569 | - | 98,502 | **98,983** | 675 | - | 98,308 |
| Other lenders | **1,143** | 189 | 763 | 191 | **1,333** | 190 | 762 | 381 |
| Finance leases | **63,479** | 10,863 | 26,992 | 25,624 | **72,548** | 10,863 | 31,368 | 30,317 |
| Valuation of derivatives | **543** | 543 | | | **718** | 718 | | |
| **Total** | **329,440** | **31,628** | **157,692** | **140,120** | **287,366** | **24,259** | **124,258** | **138,849** |

The following table shows changes in medium/long term financial liabilities between 31 December 2017 and 31 December 2018.

| *(eur/000)* | 31/12/2017 | Increase | Decrease | Changes in consolidation scope | Exchange difference | 31/12/2018 |
|---|---|---|---|---|---|---|
| Collateral loans | **44,384** | 6,815 | (7,291) | 509 | | **44,417** |
| Loans | **66,070** | 66,440 | (21,902) | | (713) | **109,895** |
| Bond loan | **98,983** | 88 | | | | **99,071** |
| Other lenders | **1,333** | | (190) | | | **1,143** |
| Finance leases | **72,548** | 1,747 | (10,792) | | (24) | **63,479** |
| Valuation of derivatives | **718** | 56 | (231) | | | **543** |
| **Total** | **284,036** | **75,146** | **(40,406)** | **509** | **(737)** | **318,548** |

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

- Utilisation of the ING/Natixis loan for the acquisitions of Prora and Ideas Srl (€ 6 million), Casa di Cura Privata S. Alessandro (€ 7 million) and Villa dei Ciliegi (€ 8 million);
- Utilisation and subsequent repayment of the revolving facility - € 10 million;
- Utilisation of the BEI loan (€20 million) to finance projects of Medipass Srl.
- Arrangement by Clearmedi Ltd of new loans of around € 10 million;
- Arrangement of two new loan facilities totalling € 19.2 million to finance greenfield development in Vimercate and Campofilone. Utilisation of these facilities to date amounts to € 6.34 million, including € 3.24 million for Vimercate and € 3.1 million for Campofilone;
- Arrangement in December of a loan facility totalling € 7.8 million to finance the greenfield development in Villalba. Utilisation to date amounts to € 0.45 million.
- Decreases due to principal repayments on loans.

It should also be noted that, on 22 February 2018, Kos S.p.A. agreed a new bank borrowing facility of € 25 million, for a period of 8 years, in order to finance the development of Medipass Srl.

***Financial liabilities and bank borrowings***

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

As required by IFRS 9, loans are stated at amortised cost, where considered significant, which is determined using the effective interest method (taking account of explicit market interest and loan related expenses) i.e. considering the rate that discounts future cash flows over the life of the financial instrument in order to arrive at its net carrying amount (See Note 4, "*Information 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 2018 and 31 December 2017.

| (euro/'000) | 31/12/2018 | 31/12/2017 | Change |
|---|---|---|---|
| Property lease - Padiglione F. | 6,267 | 6,779 | - 513 |
| Property lease - Montecosaro | 3,982 | 4,342 | - 359 |
| Property lease - Monza | 7,112 | 7,486 | - 374 |
| Property lease - Foligno | 5,180 | 5,349 | - 169 |
| Property lease - Foligno | 3,814 | 3,940 | - 127 |
| Property lease - PGR | 10,603 | 12,243 | - 1,640 |
| Property lease - Ascoli | 5,116 | 5,592 | - 477 |
| Hi-tech equipment lease | 21,407 | 26,815 | - 5,408 |
| **Total** | **63,480** | **72,547** | **(9,067)** |

The decrease is mainly due to repayments made.

***Other financial liabilities***

The following table contains a breakdown of this item at 31 December 2018 and 31 December 2017.

| (eur/000) | 31/12/2018 | 31/12/2017 | Var |
|---|---|---|---|
| Regional fund (FRISL) | 1,144 | 1,334 | (190) |
| Other | | 286 | (286) |
| **Total** | **1,144** | **1,620** | **(476)** |

Other financial liabilities includes € 1,114 thousand (€ 1,334 thousand at 31 December 2017) 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 Infra-strutture Sociali Lombardia* (FRISL).

***Financial liabilities on the valuation of derivatives***

*Financial liabilities on the valuation of derivatives* regard the fair value of IRS (interest rate swap), Collar and Interest Rate Cap contracts entered into by the Group in order to hedge the interest rate risk.

## *29) Deferred tax liabilities*

Deferred tax liabilities totalled € 16,244 thousand at 31 December 2018, an increase compared to 31 December 2017 (€ 14,406 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 measured, on a six-monthly basis, under the actuarial method required by IAS 19. At 31 December 2018, the post-employment benefits amounted to € 25,012 thousand, an increase of € 238 thousand compared to 31 December 2017.

The following table shows changes in provisions for personnel in 2018.

| *(eur/000)* | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Opening balance | 24,774 | 22,511 |
| Service cost | 10,298 | 9,148 |
| Finance cost | 284 | 276 |
| Benefits paid | ( 1,751 ) | ( 1,399 ) |
| Change in consolidation scope | 1,618 | 2,255 |
| Transfers to pension funds/treasury fund | ( 8,973 ) | ( 7,936 ) |
| Other changes | ( 534 ) | ( 213 ) |
| Net unrealised actuarial gains | ( 704 ) | 132 |
| **Provisions for personnel** | **25,012** | **24,774** |

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* | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Inflation rate | 1.50% | 1.50% |
| Discount rate | 1,3%* | 1,3%* |
| Remuneration increase rate | 0,50% - 1,50% | 0,50% - 1,50% |
| ESI increase rate | 2.63% | 2.63% |

| *Demographic assumptions* | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Mortality rate | RG48 | RG48 |
| Disability rate | INPS table by age and sex | INPS table by age and sex |
| Retirement rate | Fulfillment of compulsory general insurance requirements | Fulfillment 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 | 152,196.61 | 155,910.81 | 158,062.07 | 149,926.31 | 148,938.21 | 159,159.16 |
| KOS S.p.A. | 517,434.26 | 527,382.95 | 533,893.92 | 510,721.10 | 507,155.52 | 537,776.08 |
| KOS SERVIZI SOC. CONSORTILE A R.L. | 2,925,005.62 | 2,961,247.46 | 3,003,422.14 | 2,882,579.97 | 2,867,257.63 | 3,020,113.55 |
| MEDIPASS S.R.L. | 1,084,362.15 | 1,093,363.57 | 1,109,923.38 | 1,067,826.87 | 1,061,921.36 | 1,116,355.65 |
| OSPEDALE DI SUZZARA SPA | 101,916.90 | 102,971.54 | 104,013.40 | 100,839.87 | 99,907.14 | 105,019.62 |
| Ecomedica S.p.A. | 736,174.29 | 749,991.05 | 760,934.84 | 725,023.14 | 720,457.97 | 765,968.15 |
| KOS CARE S.R.L. | 14,921,983.31 | 15,021,665.68 | 15,162,809.50 | 14,779,018.96 | 14,666,288.02 | 15,282,822.36 |
| ABITARE IL TEMPO S.R.L. | 454,193.09 | 459,172.86 | 466,038.99 | 447,289.64 | 444,562.39 | 469,028.97 |
| SANATRIX GESTIONI S.R.L. | 754,786.77 | 759,325.21 | 765,509.78 | 748,512.16 | 743,658.56 | 770,691.41 |
| FIDIA S.R.L. | 117,906.86 | 119,111.40 | 122,416.77 | 114,643.82 | 113,481.72 | 123,712.14 |
| JESILAB S.R.L. | 75,433.70 | 75,943.22 | 77,257.24 | 74,130.65 | 73,685.48 | 77,742.95 |

| Company | Service Cost | Duration (Years) |
|---|---|---|
| KOS SERVIZI SOC. CONSORTILE A R.L. | 622,689.55 | 16.4 |
| MEDIPASS S.R.L. | 171,392.99 | 15.7 |
| OSPEDALE DI SUZZARA SPA | - | 10.7 |
| Ecomedica S.p.A. | 88,933.34 | 17.4 |
| KOS CARE S.R.L. | - | 9.5 |
| ABITARE IL TEMPO S.R.L. | 55,948.71 | 15.3 |
| SANATRIX GESTIONI S.R.L. | - | 7.9 |
| FIDIA S.R.L. | 14,740.20 | 23.8 |
| JESILAB S.R.L. | 15,519.36 | 17.0 |
| **TOTAL** | **1,060,023.45** | |

| Company | Year | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| EL.SI.DA. SRL | 20,441.76 | 7,869.19 | 8,534.68 | 9,151.76 | 9,725.11 |
| KOS S.p.A. | 31,781.83 | 26,883.97 | 28,427.89 | 29,846.93 | 31,161.79 |
| KOS SERVIZI SOC. CONSORTILE A R.L. | 269,711.15 | 157,034.03 | 207,047.90 | 236,013.77 | 338,678.44 |
| MEDIPASS S.R.L. | 119,271.72 | 125,629.43 | 77,607.51 | 85,848.35 | 84,809.35 |
| OSPEDALE DI SUZZARA SPA | 8,336.67 | 6,116.63 | 5,845.20 | 8,983.14 | 10,962.96 |
| Ecomedica S.p.A. | 45,656.31 | 100,524.41 | 26,265.82 | 28,454.38 | 30,576.56 |
| KOS CARE S.R.L. | 1,552,766.10 | 920,001.93 | 1,010,944.74 | 1,006,769.96 | 1,239,056.68 |
| ABITARE IL TEMPO S.R.L. | 79,149.91 | 22,068.19 | 23,305.87 | 24,459.65 | 42,990.96 |
| SANATRIX GESTIONI S.R.L. | 179,132.57 | 38,620.07 | 33,687.70 | 92,238.83 | 50,306.45 |
| FIDIA S.R.L. | 3,060.11 | 2,850.77 | 3,126.66 | 3,406.86 | 3,694.84 |
| JESILAB S.R.L. | 7,002.66 | 6,097.19 | 6,568.93 | 6,974.36 | 7,319.40 |
| TOTAL | **2,316,310.79** | **1,413,695.81** | **1,431,362.88** | **1,532,148.00** | **1,849,282.55** |

## *31) Provisions for risks and charges*

The following table shows changes in 2018:

| *(eur/000)* | 31/12/2017 | Increase | Utilization | Changes in consolidation scope | Other changes | Exchange difference | 31/12/2018 |
|---|---|---|---|---|---|---|---|
| **NON-CURRENT** | | | | | | | |
| Provisions for legal disputes | 6,472 | 1,100 | (431) | | (2,786) | | 4,355 |
| **Total "NON-CURRENT"** | **6,472** | **1,100** | **(431)** | **-** | **(2,786)** | **-** | **4,355** |
| **CURRENT** | | | | | | | |
| Provisions for sundry risks | 38,837 | 10,054 | (6,471) | 1,627 | 2,777 | (6) | 46,818 |
| **Total "CURRENT"** | **38,837** | **10,054** | **(6,471)** | **1,627** | **2,777** | **(6)** | **46,818** |
| **TOTAL PROVISIONS FOR RISKS AND CHARGE** | **45,309** | **11,154** | **(6,902)** | **1,627** | **(9)** | **(6)** | **51,173** |

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 € 10,191 thousand for litigation and claims with third parties and personnel; € 3,525 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 € 23,513 thousand.

### 32) Payables to parent company

| *(eur/000)* | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| Payables to parent company | 8,451 | 5,869 | 2,582 |
| **Total** | **8,451** | **5,869** | **2,582** |

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 tax consolidation scheme.

### 33) Trade payables

The following table shows trade payables at 31 December 2018 and the change on 31 December 2017:

| *(eur/000)* | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| **NON CURRENT** | | | |
| Trade payables | - | - | - |
| **Total "NON CURRENT"** | - | - | - |
| **CURRENT** | | | |
| Trade payables | 73,205 | 68,799 | 4,406 |
| Advance payments | 71 | 48 | 23 |
| **Total "CURRENT"** | **73,276** | **68,847** | **4,429** |
| **Total trade payables** | **73,276** | **68,847** | **4,429** |

Advance payments mostly regard advances on fees received from clients.

The carrying amount of trade payables and other liabilities approximates their valuation at amortised cost. The increase is due to supplier payment patterns and to the acquisitions that took place in 2018.

At 31 December 2018 and 31 December 2017, there were no payables due after more than five years.

### 34) Other liabilities

At 31 December 2018, other liabilities increased to € 53,897 thousand from € 52,404 thousand at 31 December 2017:

| (eur/000) | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| **NON CURRENT** | | | |
| Other sundry liabilities | 101 | 98 | 3 |
| **Total "NON CURRENT"** | **101** | **98** | **3** |
| **CURRENT** | | | |
| Tax liabilities | 1,361 | 1,004 | 357 |
| VAT liabilities | 332 | 1,350 | ( 1,018 ) |
| Withholdings | 5,608 | 5,244 | 364 |
| Other tax liabilities | 1,064 | 764 | 300 |
| Payables to social security institutions | 11,877 | 10,196 | 1,681 |
| Payables to personnel | 20,664 | 19,206 | 1,458 |
| Guarantee deposits | 4,232 | 3,740 | 492 |
| Other sundry payables | 8,658 | 10,802 | ( 2,144 ) |
| **Total "CURRENT"** | **53,796** | **52,306** | **1,490** |
| **Total other payables** | **53,897** | **52,404** | **1,493** |

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

Payables to employees include payroll liabilities (holiday pay, 14$^{th}$ 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.

At 31 December 2017, "Sundry other payables" included an amount of € 5,548 thousand representing the outstanding balance of the acquisition price payable for investments in Casa di Cura Villa Margherita S.r.l. and Ecomedica S.p.A; this amount was settled in 2018. At 31 December 2018, the balance includes € 1,933 thousand representing the outstanding amount of the acquisition price of the investment in Villa dei Pini S.r.l. and € 1,500 thousand in the form of an advance received on the sale of a nursing home under construction, title to which will be transferred upon completion of the works.

## ***35) Guarantees, commitments and risks***

### ***Commitments and contingent risks***

The following table summarises the Group's commitments and contingent risks at 31 December 2018 and 31 December 2017:

| (eur/000) | 31/12/2018 | 31/12/2017 | Var. |
|---|---|---|---|
| Surety (building rent) | 20,019 | 19,165 | 854 |
| Surety for key money | 225 | 225 | - |
| Other commitment | 9,738 | 6,654 | 3,084 |
| **Total** | **29,983** | **26,044** | **3,938** |

At 31 December 2018, 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 € 20,244 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 € 19,842 thousand;

- Guarantee on behalf of Medipass Srl and its subsidiaries for rental agreements - around € 131 thousand
- Guarantee in favour of the Municipality of Sanremo for security deposits on planning permission/urbanisation costs - € 225 thousand;

At 31 December 2018, other commitments and risks amounted to € 9,738 thousand and mainly related to the following:

- assets on free use loan totalling € 3,013 thousand;
- insurance guarantees granted by Ospedale di Suzzara in favour of F.lli Montecchi - € 953 thousand.
- competitive tenders of around € 57 thousand
- contractual commitments of around € 5,715 thousand

The Group operates out of owned and leased/rented facilities. Its lease/rental agreements are for between three and twelve years and are generally renewable. At the reporting date, out of 51 nursing homes for the elderly, 13 were owned by the Group as were 8 of the 34 functional and psychiatric rehabilitation facilities. The remaining facilities (out-patient 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** | **31/12/2018** | **33,792** | **33,644** | **33,312** | **33,088** | **30,891** | **221,659** |
| 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;

[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.

- 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 parties and belonging to the KOS Group at both 31 December 2018 and 31 December 2017:

| | 31/12/2018 | | | | | | 31/12/2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| INTERCOMPANY ASSETS / LIABIITIES | Assets | | | Liabilities | | | Assets | | | Liabilities | | |
| *(eur/000)* | Trade | Finan. | Other receiv. | Trade | Finan. | Other payables | Trade | Finan. | Other receiv. | Trade | Finan. | Other payables |
| **Parent company** | | | | | | | | | | | | |
| CIR S.p.A | | | 1,574 | | | 8,451 | | | 1,392 | | | 5,869 |
| | | | | | | | | | | | | |
| **Associates** | | | | | | | | | | | | |
| Osimo Salute S.p.A. | | 105 | | | | | | 105 | | | | |
| | | | | | | | | | | | | |
| **Other related parties** | 26 | | | 708 | | 29 | 22 | | | 754 | | |
| | | | | | | | | | | | | |
| **Total** | **26** | **105** | **1,574** | **708** | **-** | **8,480** | **22** | **105** | **1,392** | **754** | **-** | **5,869** |

| | 31/12/2018 | | | | | | 31/12/2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| INTERCOMPANY REVENUE/COSTS | Revenue | | | Costs | | | Revenue | | | 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 | | | | | | 175 | |
| | | | | | | | | | | | | |
| **Associates** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **Other related parties** | | 23 | | 2,069 | 63 | | | | | 1,757 | 117 | |
| | | | | | | | | | | | | |
| **Total** | **-** | **23** | **-** | **2,069** | **238** | **-** | **-** | **-** | **-** | **1,757** | **292** | **-** |

“Other related parties” mainly includes trade transactions with labour cooperatives and other companies. The main other related parties include: Coo.s.s. Marche Onlus (costs of € 1,859 thousand and liabilities of € 662 thousand at 31 December 2018)

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 € 2,119 thousand (€ 1,681 thousand in 2017).

The fees of the members of the Boards of Statutory Auditors of the KOS Group companies amounted to € 155 thousand (€ 170 thousand in 2017).

Gross remuneration of the key managers totalled € 1,941 thousand in 2018 (€ 1,937 thousand in 2017).

## ***38) Net financial debt***

At 31 December 2018, the net financial debt was as follows:

| *(eur/000)* | 31/12/2018 | 31/12/2017 |
|---|---|---|
| (A) Cash and cash equivalents | 55,334 | 32,820 |
| (B) Other cash equivalents | - | - |
| **(C) Liquidity (A) + (B)** | **55,334** | **32,820** |
| (D) Securities, derivative financial instruments and other financial assets | 14,673 | 17,401 |
| **(E) Total current financial assets (C) + (D)** | **70,007** | **50,221** |
| (F) Payables to banks for account overdrafts | 10,892 | 3,330 |
| (G) Payables to banks for collateral loans | 7,514 | 7,171 |
| (H) Payables to banks for loans | 1,058 | 1,312 |
| (I) Bond loans | 569 | 675 |
| (J) Payables for finance leases | 10,863 | 10,863 |
| (K) Payables to other financing entities | 189 | 190 |
| (L) Derivative financial instruments | 543 | 718 |
| **(M) Current financial debt (F) + (G) + (H) + (I) + (J) + (K) + (L)** | **31,628** | **24,259** |
| **(N) Net current financial position (M) - (E)** | **( 38,379 )** | **( 25,962 )** |
| (O) Payables to banks for collateral loans | 36,903 | 37,213 |
| (P) Payables to banks for loans | 108,837 | 64,758 |
| (Q) Bond loans | 98,502 | 98,308 |
| (R) Payables for finance leases | 52,616 | 61,685 |
| (S) Payables to other financing entities | 954 | 1,143 |
| **(T) Non current financial debt (O) + (P) + (Q) + (R) + (S)** | **297,812** | **263,107** |
| **(U) Net financial debt (N) + (T)** | **259,433** | **237,145** |

The net financial debt of parent company KOS S.p.A. is €81 million, excluding receivables/payables with subsidiaries of € 64.6 million.

The Group's net financial debt is € 259 million at 31 December 2018 against € 237 million at 31 December 2017. The increase of around € 22 million in net financial debt is mainly due to: (i) the distribution of reserves of around € 29 million; (ii) acquisitions during the year of around € 22.2 million; (iii) the positive change of € 6.6 million in net working capital and cash flows from operating activities.

The Group's financial debt includes: (i) cash and cash equivalents of € 55.3 million; (ii) financial receivables for valuation of derivatives and non-recourse factoring of € 16.7 million; (iii) short-term borrowing (advances on invoices and bank overdraft) of € 10.9 million while total available short term credit facilities amount to € 70.8 million (i.e. there is headroom of € 59.9 million); (iv) non-current debt of € 318.3 million. The Group also has the possibility of using additional non-current lines of credit totalling € 135.1 million.

The consolidated statement of cash flows shows that cash flow from operating activities amounted to € 80,736 thousand in the year ended 31 December 2018 compared to € 62,385 thousand in the year ended 31 December 2017.

Cash flows used in investing activities increased from € 66,642 thousand in 2017 to € 69,273 thousand in 2018. The effect relating to acquisitions during the year was € 22,117 thousand.

Cash flows from financing activities improved from a negative € 2,657 thousand in 2017 to a positive € 3,489 thousand in 2018. This cash flow was mainly due to the distribution of reserves and dividends of around € 29.7 million which was more than offset by 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.

| | 2018 | 2017 |
|---|---|---|
| | December | December |
| | | |
| **Earning (loss) for the period** | | |
| | | |
| Net earning attributable to shareholders (A) | **35,167,607** | **29,049,058** |
| | | |
| Diluted effect (B) | **0** | **0** |
| | | |
| Diluted earning (loss) attributable to shareholders (E=A+B) | **35,167,607** | **29,049,058** |
| | | |
| **Number of shares** | | |
| | | |
| Weighted average number of ordinary shares outstanding ( C) | 88,481,034 | 88,481,034 |
| | | |
| Diluted effect (D) | 346,482 | 141,816 |
| | | |
| Weighted average number of ordinary shares outstanding dluited (F=C+D) | 88,827,516 | 88,622,850 |
| | | |
| **Basic earning (loss) per share (A/C)** | **0.397** | **0.328** |
| | | |
| **Diluited earning (loss) per share (E/m in (F;C))** | **0.396** | **0.328** |

## *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 2018 and 2017 is provided below.

| SBA | LONG TERM CARE | | HOSPITAL MANAGEMENT | | | | CORPORATE AND OTHER COMMON SERVICES | | IC ELIMINATIONS | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | ACUTE CARE | | Cancer treatment and | | | | | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Third party revenue | 438,873 | 398,656 | 36,124 | 36,774 | 69,881 | 55,091 | 49 | 38 | - | - | 544,927 | 490,559 |
| Intercompany revenue | 1,272 | 1,263 | - | 15 | 191 | 52 | 28,652 | 23,515 | ( 30,115 ) | ( 24,845 ) | - | - |
| **Total revenue** | **440,145** | **399,919** | **36,124** | **36,789** | **70,072** | **55,143** | **28,701** | **23,553** | **( 30,115 )** | **( 24,845 )** | **544,927** | **490,559** |
| EBITDA | 82,152 | 71,275 | 2,143 | 2,750 | 20,606 | 17,543 | ( 3,092 ) | ( 3,770 ) | - | - | 101,809 | 87,798 |
| EBIT | 61,474 | 51,549 | ( 91 ) | 355 | 9,584 | 7,059 | ( 4,692 ) | ( 5,197 ) | - | - | 66,275 | 53,766 |
| NET FINANCIAL EXPENSES | | | | | | | | | | | ( 12,722 ) | ( 11,682 ) |
| INCOME TAXES | | | | | | | | | | | ( 17,237 ) | ( 11,392 ) |
| PROFIT FOR THE YEAR | | | | | | | | | | | 36,316 | 30,692 |
| PROFIT FOR THE YEAR ATTR. TO NON-CONTROLLING INTERESTS | | | | | | | | | | | 1,148 | 1,643 |
| PROFIT FOR THE YEAR ATTR. TO OWNERS OF THE PARENT | | | | | | | | | | | 35,168 | 29,049 |

| SBA | LONG TERM CARE | | HOSPITAL MANAGEMENT | | | | CORPORATE AND OTHER COMMON SERVICES | | IC ELIMINATIONS | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | LONG TERM CARE | | ACUTE CARE | | Cancer treatment and | | | | | | | |
| **FINANCIAL POSITION DATA** | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Property, plant and equipment* | 286,174 | 266,265 | 6,162 | 7,310 | 60,653 | 53,877 | 568 | 352 | | | 353,557 | 327,804 |
| Intangible assets | 252,747 | 237,957 | 234 | 273 | 37,135 | 37,870 | 1,021 | 580 | | | 291,137 | 276,680 |
| Other non current assets | 2,315 | 2,316 | 36 | 36 | 5 | 8 | 26,455 | 24,053 | | | 28,811 | 26,413 |
| Assets held for sale | | | | | | | | | | | 0 | 0 |
| Current assets | 73,803 | 75,512 | 641 | 996 | 30,255 | 26,692 | 76,935 | 58,431 | | | 181,634 | 161,631 |
| **Total assets** | **615,039** | **582,050** | **7,073** | **8,615** | **128,048** | **118,447** | **104,979** | **83,416** | **0** | | **855,139** | **792,528** |
| | | | | | | | | | | | | |
| Equity | | | | | | | 297,646 | 293,553 | | | 297,646 | 293,553 |
| Non current liabilities | 21,215 | 25,204 | 553 | 543 | 2,970 | 2,020 | 318,786 | 281,090 | | | 343,524 | 308,857 |
| Liabilities held for sale | | | | | | | | | | | 0 | 0 |
| Current liabilities | 118,378 | 107,773 | 11,771 | 12,150 | 19,964 | 20,284 | 63,856 | 49,911 | | | 213,969 | 190,118 |
| **Total liabilities** | **139,593** | **132,977** | **12,324** | **12,693** | **22,934** | **22,304** | **680,288** | **624,554** | **0** | | **855,139** | **792,528** |

* Including investment property

## ***41) Significant events after 31 December 2018***

There have been no significant events after 31 December 2018.

Milan, 22 February 2019

For the Board of Directors
*The Chairman*
Carlo Michelini