



MANAGEMENT REPORT

as at 31/12/2018
(attached to the IAS/IFRS Financial Statements as at 31/12/2018)

Tax code: 01691390692
REA (Economic and Administrative Index) number: 102263

XENIA S.P.A.

Registered office:
Via Antonio Gramsci, 79 - 66016
GUARDIAGRELE (CH)
Share capital €1,200,000.00 fully paid

Ξενία

*Xenia (Greek: **Ξενία**, translit. xenía, meaning "guest-friendship") is the ancient Greek concept of hospitality, the generosity and courtesy shown to those who are far from home and/or associates of the person bestowing guest-friendship.*

1. INTRODUCTION

The purpose of this **Management Report**, accompanying the financial statements of Xenia S.p.A for the year ended 31 December 2018, is to comment on and analyse the operating performance as well as the outlook, pursuant to the provisions laid down in Article 2428 of the Italian civil code. The Company is in the process of implementing the new business plan that since 2016 and therefore following the sale of the business travel unit in 2015, aims to establish a hotel group (directly managed hotels) and hotel distribution group (distribution of third-party hotels through a technology platform). The income generated in 2018 from the management of PHI-brand hotels and the income generated from the distribution activity grew significantly compared with the previous year.

In 2019, Xenia S.p.A. may publish information and data relating to its operations in the stakeholders section of www.xeniahs.com, which is where this document is published in full.

2. DESCRIPTION OF THE GROUP

Xenia S.p.A. belongs to the **PHI Group** and directly controls, with a 70% stake, the English company, Xenia International Ltd. It also has a branch in Albania called Xenia Balkan Service. The other companies of the PHI Group are not owned, not even indirectly, by Xenia S.p.A., and they carry out activities for the group and for Third Party Clients or Third Parties.

The other companies are:

THOT S.r.l.

An Italian company with registered office at Via Antonio Gramsci 79, 66016 Guardiagrele (Chieti) - VAT no. 02432990691, registered at the Register of Companies of Chieti (CH) - REA (Economic and Administrative Registry): 178618 | Share capital: €10,000.00, fully paid up.

The company engages in the following activities: statistical research, market investigations, feasibility studies, analyses of demographic, social, economic, corporate and financial data, construction of dashboards and predictive models in all the sectors with particular focus on tourism and the hotel industry.

XENIA BALKAN Sh.p.k.

An Albanian company with registered office in: Donika Kastrioti, Pallati 14, Tirana. The activities carried out by this company involve operational services supporting the hotel and accommodation segments. In addition, the company offers consulting, products and services for Travel Agencies and Tour Operators internationally.

MEASALUS di Santa Brigida di Kildare S.r.l.

An Italian company with registered office at Via Antonio Gramsci 79, 66016 Guardiagrele (Chieti). Tax code and VAT no.: 02600770693, registered at the Register of Companies of Chieti (CH) - REA (Economic and Administrative Registry): 191134. The company (not yet operational) intends to engage in activities related to healthcare and prevention services along with diagnostic and specialist care services. It is currently applying for the necessary permits and licenses, some of which have already been granted by the relevant entity.

3. THE COMPANY'S HISTORY, BUSINESS ENVIRONMENT AND BUSINESS DEVELOPMENT

Xenia S.p.A. (formerly Seneca SpA), after having a strong presence in the business tourism sector for over 25 years and having developed hotel products and services for the distribution and sale of rooms on B2B channels and in specific market segments, sold its business travel unit and the Seneca brand in 2015 to focus on the hotel and distribution sector, promoting its services in Italy and elsewhere in Europe.

In 2015 and 2016, after a period dedicated to the organization and preparation of the new activities, the Company finally put its development and growth plan in motion for two business areas: **distribution** through its brand **XENIAtoBOOK** and a **hotel group** through its brand **PHI Hotels** with directly managed accommodation facilities. Furthermore, Xenia still holds its interest in the **crew accommodation** service segment, a business in which the Company has gained specialist expertise and experience.

Xenia is therefore present in the hospitality sector with more services for demand and supply channels in addition to having its own direct production area (represented by its directly managed hotels).

All of Xenia's services share a key element: personalization and an approach that is different from the mainstream competitors, since the company has always stayed true to its mission to tap into needs not being met by standardised industrial models.

The technological components of the services, indispensable and constantly evolving, represent our never-ending commitment to research and implementing a Company that has what it takes to integrate them in a context of added value that is mainly expressed in its attention to the service it offers to its Customers. These components - partly proprietary and partly third-party - are constantly updated and reorganized so that they remain effective within the changing contexts of the sector.

The competitive landscape of some of the services provided, such as distribution, can be identified throughout the world, although the Company has decided to mainly focus on Europe for the first five years.

We are focusing - until 2020 - on building up the hotel group, with the PHI Hotels brand, across Italy; however, we started scouting out several European destinations such as Germany, England and Switzerland. The PHI Hotels brand project has been experiencing strong growth. The distribution and establishment of the PHI Hotels group **together represent the cornerstone of the business project in the coming years**. The aim of the long-term business plan is in fact to transform the company into a proper **hotel** and **distribution group** for the hotel industry.

In this regard, the following hotels are part of the Company with the PHI Hotels brand (www.phi-hotels.com) thus far (i.e. the date of approval of the financial statements by the Shareholders' meeting):

PHI Hotel Milano - Baranzate/Milan	4 Stars
PHI Hotel Canalgrande - Modena	4 Stars
PHI Park Hotel Alcione - Francavilla Al Mare/Pescara	4 Stars
PHI Hotel Hortensis - Cannara/Assisi	3 Stars
PHI Resort Coldimolino - Gubbio	4 Stars
PHI Hotel Astoria - Susegana (TV)	4 Stars since 1° april 2019

The crew accommodation service has established itself as a highly specialized service developed by the company serving medium and large-sized customers in Europe. The segment is also under review which will lead, during 2019, to a new service approach and, therefore, to a new assessment model for our Customers and procedures, in order to optimise and improve management.

During the year, we implemented activities to ensure compliance with the new **Privacy** regulation (GDPR - Regulation (EU) 679/2016). Assisted by a specialized law firm, already from the last quarter of 2017, a detailed assessment (Data Protection Gap Analysis) was carried out on all processing operations. Xenia opted for a particularly granular method of analysis with a high level of detail, extending it to other group companies for each specific business area. While the Gap Analysis was being completed, we started developing activities relating to Compliance with the Regulation in accordance with the time limits provided for under this regulation.

Significant parts of the **231 Model** were updated, alongside with its general review, which was performed by a leading consulting firm in the international arena.

Moreover, in February 2019, a new **Supervisory Body**, set up as a board, was appointed. The members of the SB are Mr. Luigi Pecorario (chairman), Dr. Marco Giuliani and Mr. Francesco De Luca, trained professionals with the experience required for this function. The new SB began its term of office on 1 March 2019.

The **Code of Ethics** is also being revised; the new version is scheduled to be released in 2019.

The new provisions concerning the **Business Crisis and Insolvency Code (Legislative Decree 14/2019)** have long been the focus of attention which, with the exception of certain provisions, are applicable as of 16 March 2019. The Company already has its own governance and management model to ensure the effectiveness and efficiency of its controls. A new **Internal Auditor** function was introduced in February 2019. This function has been entrusted to an experienced manager who is currently working on obtaining C.I.A. (Certified Italian Auditor) certification.

The major changes and provisions introduced by Legislative Decree 14/2019 inspired the Company to further analyse its operational strategies in order to be able to constantly measure the characteristics, also in view of future indicators representing key elements in assessing the Company's status. Furthermore, these assessments would also be applied, where necessary and useful, to counterparties of particular interest, which could have a direct impact on the Company's performance.

In 2018, the **Quality Certification** was adapted to the new UNI EN ISO 9001:2015 with the Certifying Body DNV GL - Business Assurance. In addition, during the year we also obtained the **Environmental Certification** UNI EN ISO 14001:2015 through the Certifying Body DNV GL - Business Assurance.

The **Legality Rating** of two stars was confirmed by the Autorità Garante della Concorrenza e del Mercato (AGCM - "Italian Competition Authority").

Pursuant to art. 2428 of the Italian civil code, business is conducted at the registered office located in Guardiagrele and also at the following local units:

- Milan, Corso di Porta Nuova no. 16 until April 2019 - the offices will then be based at PHI Hotel Milano
- Milan (Baranzate) Via Falzarego 1 at PHI Hotel Milano
- Tirana (Albania), via Kastrioti Pallati no. 14 (since 10/02/2016)
- PHI Park Hotel Alcione in Francavilla al Mare (Chieti)
- PHI Hotel Hortensis located in the Assisi area (Municipality of Cannara)
- PHI Hotel Canalgrande in Modena
- PHI Resort Coldimolino in Gubbio (Perugia)
- PHI Hotel Astoria in Susegana (Treviso)

The Company also has a representative office in London, based at the subsidiary Xenia International Ltd.

4. OVERALL PERFORMANCE OF THE COMPANY

The net profit realised in 2018 consolidated the path of the new business plan started in 2016 after the sale (in mid-2015) of the business travel unit. Our solid performance does not only relate to the financial aspect, but also to the organizational and structural growth of the entire business environment, as well as our strong focus on the objectives in pursuing our vision.

More information on the overall performance of the company is reported in other parts of this document.

4.1) MATERIAL EVENTS DURING AND AFTER THE REPORTING PERIOD

In March 2018, the reference shareholder contributed assets of €457,000.00 in order to strengthen equity and, in particular, tangible equity (with an increase of €257,000).

In November 2018, the Company executed an extraordinary transaction by purchasing the business unit of the former HL Hotel in Milan (now PHI Hotel Milano) which will be discussed later in the specific section on extraordinary transactions.

At the end of December 2018, the previous tax audit report of 20 May 2016 received from the Italian Revenue Agency gave rise to a notice of assessment for which we have already submitted a request, through one of the most important Italian firms in the sector, to reach a settlement "in bonis". The claims made by the Italian Revenue Agency - completely rejected and in our opinion unfounded - concern misinterpretations in the application of VAT in several transactions performed in 2013 and, for minor amounts, different methods for calculating the deductibility of interest payable and financial charges. We hope that our reasonings, supported by authoritative opinions, will be accepted and therefore, that the case will be quickly settled. Having said that, we do intend to appeal - if forced to do so - to the most appropriate Courts for the recognition of all reason in this regard.

During 2019, one of our main customers in the crew accommodation segment, who represents a large part of the turnover and revenues for the segment and in also general, has started - as a result of the forthcoming expiry of the contract - a specific tender that is expected to be awarded in the last quarter of 2019. The terms of the new contract are still unknown and therefore no elements are available to help assess the requirements for participation; accordingly, no comments can be made on the issue.

5. NEW ORGANISATION

As expected, the development of the company has made it necessary to revise the organization.

New functions have been added, including:

- Purchasing Department
- Internal Auditor
- Chef Executive for the food and beverage lines

Furthermore, powers of attorney have been granted to management to keep day-to-day operations running smoothly.

New functions are scheduled to be added in 2019, including:

- Human Resources
- Maintenance Office

A **Succession Plan** was drawn up in November 2018 for the purpose of ensuring operational continuity, also in the event of unavailability of the Entrepreneur and the Key Persons.

6. ANALYSIS OF MAIN COSTS

The main costs concern personnel, consulting services, raw materials and services.

With regard to Personnel, the increased professional level and the new hotels identified have significantly increased this cost, together with the related ancillary costs. However, this can be considered within the limits of normal values considering the size and activity of the Company.

Consulting services, especially for specific issues, increased notably because of activities related to Privacy, the 231 Model and the reorganization of the Company. In addition, extraordinary and ordinary transactions relating to the hotels under the PHI Hotels brand contributed significantly to this increase.

With regard to procurement, the introduction of the purchasing function, which has centralised the activity, is already producing significant improvements as expected; this will be even more pronounced in the coming months.

Our commitment to management always remains a key point to ensure that each aspect of the organizational part protects our qualitative and financial equilibrium, also in the medium and long term.

INDICATORS	31/12/2018	31/12/2017	Change
Cost-effectiveness	1,03	1,03	=
Labour costs/ Revenue from ordinary operations	0,047	0,04	0,70%

7. 2018 NET PROFIT

Operating income for 2018, higher than that projected and accrued despite the various hotel start-ups taking place during the year, was mainly due to the crew accommodation segment (more in terms of quantity) and the distribution segment (more in terms of quality).

The hotels, still in the start-up phase, showed a good balance between the various operating costs and the core revenues, despite the start-up and extraordinary costs considered endogenous.

In 2019, all hotels will have a specific contribution margin, commensurate with their size and seasonality.

7.1 OVERALL FINANCIAL PERFORMANCE

The company's reclassified income statement is presented below with comparative information in respect of the previous year (in euro):

INCOME STATEMENT	31/12/2018	31/12/2017	Change
Net income	31.035.166	26.518.222	4.516.944
Other income	71.383	125.675	-54.292
External costs	28.708.387	24.614.059	4.094.328
Value Added	2.398.162	2.029.838	368.324
Labour cost	1.616.463	1.064.004	552.459
EBITDA	781.699	965.834	-184.135
Amortization, depreciation, write-downs and other provisions	170.982	284.633	-113.651
EBIT	610.717	681.201	-70.484
Financial income and expenses	-167.651	-168.543	-892
Investment write-down	0	3000	-3000
Earnings before taxes	443.066	509.658	-66.592
Income taxes	163.698	189.303	-25.605
Net income	279.368	320.355	-40.987

7.2 INCOME STATEMENT HIGHLIGHTS

The tables below provide an analysis of the main profitability ratios regarding 2018 and 2017 in order to gain insight into the financial performance of the company.

INDICATORS	31/12/2018	31/12/2017	Change
ROE, net	22,00%	42,60%	-20,60%
ROE, gross	28,20%	74,20%	-46,00%
ROI (net	24,61%	35,60%	-10,99%
ROS	2,00%	2,60%	-0,60%

EBITDA for 2018 was €735,483, resulting in a net profit of €279,368.

In particular, the year benefited from the growth in revenue from the distribution area, growth in the PHI Hotels area, while crew accommodation revenue remained steady.

8. BALANCE SHEET HIGHLIGHTS

The Company's reclassified balance sheet is presented below with comparative information in respect of the previous year.

SEPARATE FINANCIAL STATEMENTS	31/12/2018	31/12/2017	Change
Net intangible assets	119.384	134.089	-14.705
Net property, plant and equipment	2.050.601	1.642.844	407.757
Equity investments and other financial assets	831.042	677.053	153.989
Other non-current assets	3.001.027	2.453.986	547.041
Inventories	25.849	3.440	22.409
Trade and other receivables	11.426.350	10.068.231	1.358.119
Short-term assets	11.452.199	10.071.671	1.380.528
Trade payables	11.406.726	10.201.349	1.205.377
Tax payables	198.547	228.198	-29.651
Other current liabilities	525.630	255.489	270.141
Short-term liabilities	12.130.903	10.685.036	1.445.867
Net working capital	-678.704	-613.365	-65.339
Post-employment benefits (TFR)	437.261	408.927	28.334
Deferred tax provision	168.255	344.659	-176.404
Other medium/long-term liabilities	514.069	01	514.069
Medium and long term liabilities	1.119.585	753.586	365.999
Invested capital	1.716.807	1.087.035	629.772
Shareholders' Equity	1.271.549	752.126	519.423
Short-term net financial position	-400.753	-73.409	-327.344
Medium/long term net financial position	846.011	408.318	437.693
Equity and net debt	1.716.807	1.087.035	629.772

To gain insight into the company's financial soundness, the table below contains several financial statement ratios pertaining to both (i) the methods for financing medium/long-term loans and (ii) the composition of the sources of financing, compared with the same ratios regarding the financial statements for previous years.

INDICATORS	31/12/2018	31/12/2017	Change
Fixed asset to equity capital margin	-1.729.478	-1.701.860	-27.618
Fixed asset to equity capital ratio	42,37%	30,65%	11,72%
Fixed asset to equity capital and medium-long term debt margin	-277.951	-539.956	262.005
Fixed asset to equity capital and medium-long term debt ratio	90,74%	78,00%	12.74%

9. FINANCIAL HIGHLIGHTS

The table below provides a breakdown of the net financial position as at 31 December 2018, compared with 2017 figures.

TABLE - NET FINANCIAL POSITION	31/12/2018	31/12/2017	Change
Bank deposits	2.564.915	2.217.602	347.313
Cash and equivalents in hand	303.576	69.420	234.156
Cash and cash equivalents	2.868.491	2.287.022	581.469
Current financial assets			
Payables to banks (within 12 months)	-2.456.334	-2.204.950	-251.384
Short-term portion of loans	-11.404	-8.663	-2.741
Short-term financial liabilities	-2.467.738	-2.213.613	-254.125
Short-term net financial position	400.753	73.409	327.344
Payables to banks (beyond 12 months)	-273.512	-390.398	116.886
Long-term portion of loans	-58.430	-17.920	-40.510
Medium and long term net financial position	-331.942	-408.318	76.376
Net financial position	68.811	-334.909	403.720

To gain insight into the company's financial situation, the table below contains several financial statement ratios regarding 2018 and 2017.

INDICATORS	31/12/2018	31/12/2017	Change
Primary liquidity (acid test)	0,98	0,96	0,02
Secondary liquidity	0,98	0,96	0,02
Debt (Tot. Debt/ Equity)	12,62	18,69	-6,07
Debt/ equity ratio	0,05	0,45	-0,40
Leverage	13,62	19,81	-6,19
Fixed assets coverage ratio	0,89	0,99	-0,10

Financing activities on the whole, despite being within normal limits, were affected and have been even more affected by the split-payment mechanism applied to one of our Customers, in addition to the start-up operations of a number of hotels. These elements continue to prevent us from achieving a stable level of cash flows.

Collection times have been stable, also due to the growth of the core business areas of the new business plan which generally have positive flows. In particular, there were no major changes in cash flows in the distribution segment; in crew accommodation, collection times were extended for further revisions of the invoice control and payment processes.

With regard to this, in some cases there is an increase in the average payment time with rare cases of strain (choosing to interpret the circumstance restrictively) even if the available lines of credit are not saturated.

The split payment mechanism remains an essential element which, however well-managed it may be, in fact systematically generates significant mismatches in cash flows causing an increase in administrative procedures and operating costs.

With the contribution of the shareholders in March 2018 and the profit for the year, the Company's net equity came to €1,271,549 with substantial components of tangibility.

10. INFORMATION PERTAINING TO THE ENVIRONMENT AND PERSONNEL

Taking into account the social role of the company, as also illustrated in the document on management reports published by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (professional body of accountants in Italy), it was considered appropriate to furnish information pertaining to the environment and personnel.

10.1 PERSONNEL

There were no fatalities on the job involving personnel on the payroll, and no serious occupational accidents occurred which involved serious or critical injuries to the personnel on the payroll during the financial period.

During the year, no occupational diseases affecting employees or former employees were reported and no lawsuits were filed regarding mobbing for which the company was declared liable in the final ruling.

During the year, our company made investments in safety and enhancing the operating conditions of the personnel in line with the provisions of the corporate policy.

10.2 ENVIRONMENT

During the year there were no cases of environmental damage for which the Company was found guilty, and our company did not receive any fines or penalties for environmental crimes or damages.

11. INVESTMENTS

During the year, the only investments were in maintenance.

12. RESEARCH & DEVELOPMENT

Pursuant to Article 2428, paragraph 2, no. 1, we acknowledge that the Company, in cooperation with the University of Bologna and Thot S.r.l. (a company in the group), conducts research and development activities. R&D is currently focused primarily on two projects: the first concerns accommodation-type activities, while the second concerns the creation of software for the distribution sector.

In 2018, projects were started for the development of hotel pricing analysis tools to be used for the PHI Hotels facilities.

These activities will mainly engage resources and consultants in 2019, for some €180,000.00, which will form the real area of development. In 2018, these activities were fully recognised at cost since they relate only to a merely preparatory phase.

13. RELATIONSHIPS WITH SUBSIDIARIES AND RELATED PARTIES

Our dealings with Xenia International Ltd., the only subsidiary of the parent, are listed below.

The subsidiary was established at the end of 2015 in the United Kingdom, in a region considered strategic for the development of the Distribution, PHI Hotels and Accommodation business divisions.

During 2018, the subsidiary started its activities regarding the promotion and sale of services approximately 18/24 months after the preparatory phase and after being joined by English Member with a 30% stake. The previous phases involved establishing relations and contracts with the main technology and service suppliers and a lot of effort was put into the start-up.

2018 was therefore the first year of actually doing business with about 35 member hotels in the distribution system, which - even if below expectations - still confirms that there are good market opportunities. Moreover, thanks to the promotion and scouting activity, we were able to evaluate various hotel facilities for the PHI Hotels project; one was considered incompatible with the characteristics of the project, while two we believe we can probably negotiate with. In fact, we are already talking with one of them.

During 2018, the Ltd. also incorporated some important drivers (Channel Manager) in the XENIAtoBOOK system, particularly popular in the Anglo-Saxon market, to facilitate the promotion and sale of services.

Brexit certainly raises concerns about the investment made and the ongoing activities in the UK and from the UK for English speaking countries in Europe. Our interpretation of the context fits with those who consider being present in the UK, even in the period before Brexit, a value and not a double-edged sword, with particular regard to what might in the future represent difficulties in entering a market and a context that - in any case - remain decisive for the sector and very hard to duplicate.

14. INFORMATION ABOUT RISKS AND UNCERTAINTIES PURSUANT TO 2428 PARAGRAPH 2, POINT 6-BIS, OF THE ITALIAN CIVIL CODE

Pursuant to Article 2428, paragraph 2, point 6-bis of the Italian civil code, information is provided below on the use of financial instruments, since they are relevant for the purpose of assessing the company's financial position.

More specifically, the objective of corporate management, the policies and criteria used to measure, monitor and check the financial risks are discussed below.

14.1 COMPANY SIZE RISK

Xenia S.p.A. is positioned in the small and medium-sized business segment, even though within this segment it is a medium-sized and structured company. The size risk is definitely high because it is becoming increasingly common that the different segments of the business areas in which the company operates tend to join forces and significantly expand in size and commercial capabilities.

We would also like to stress that the Company's current sales volumes are especially dependent on one business segment - crew accommodation - which will undergo major revisions in 2019 (also in relation to the possible exit of one of the main customers) for the reasons explained in this report related to financial trends. This could lead the Company to a decidedly lower dimensional level in 2020, only to make a comeback in profitability.

14.2 COMMERCIAL RISK

The challenges that companies of a size and structure comparable to Xenia may face in defining and building an important and effective market presence is one of the factors underlying the commercial risk.

To cope with competition, which is increasingly organized and robust, not to mention equipped with wide range of tools of a financial and technological nature, we need to constantly monitor the market. For this reason, important investments in marketing and marketing functions are necessary.

Xenia has solid business models and a great deal of flexibility; these are very useful elements of competition although not entirely sufficient to rapidly expand its business reach.

While we have experienced strong business growth, we are still unable to be as fast as the market would allow and therefore achieve better margins and profitability.

At present, there does not appear to be any circumstances that could pose a risk of the models or services becoming obsolete; on the contrary, in some cases there may be valid innovative solutions which, however, due to the relative weight of the brand and the limited possibility of commercial action, often remain unexpressed.

The Company strives to constantly identify ways to gain market access with means that can keep costs and investments down in order to maintain the equilibrium of its income statement.

14.3 TECHNOLOGY RISK

Within the Company's business segment, thanks to the growth of the hotel segment, technology risk is lower and mainly pertains to distribution. However, the fact of the matter is that no business is immune to technology risks, whether direct or indirect; this is why Xenia constantly monitors the market and believes that it is important to place emphasis on this risk factor.

For the distribution, hotel business and crew accommodation areas, investments and spending are a must if we want to continue with the necessary implementation and continual adaptation of technology and solutions (often made by third parties).

In most cases, technological solutions have a direct impact on the ability to generate revenues or improve the cost structure. Inevitably, it is the major players and large investors who are able to take increasingly strong leadership positions.

At the same time, we would like to point out that if a company is constantly evolving, it will never be able to solidify its position over the long term: this is where our Company has an advantage. Our technology policy is based on a light and scalable infrastructure, focused on bringing together a combination of semi-finished products capable of creating innovative solutions.

14.4 FINANCIAL RISK

Financial risk is mainly related to the difficulties that can arise in managing the flows, the causes of which, in our case, could stem from difficulties in maintaining a balance between payment and collection times.

Financial risks also include dealings with financing entities such as banks, funds, guarantee institutions, etc. from which the Company can directly or indirectly rely on for credit facilities, loans, guarantees etc. During the year, and at the time of preparing this management report, despite four hotel start-ups and some slightly challenging periods, the Company did not experience any significant financial pressure.

We have continued to enjoy excellent and collaborative relations with the financial institutions that we deal with on a regular basis. The main financial risk is in the crew accommodation area which, among the Company's activities, accounts for the highest turnover and the greatest cash demand.

As reported above, the application of split payment on substantial volumes by one of our main customers has generated a further increase in finance costs (as well as operating and administrative costs) and has substantially increased the misalignment in the funding necessary for the correct observance of collection and payment terms.

Despite this, thanks to careful management of the available resources and an exemplary practice of cash pooling of the various businesses, we have always had a strong response to the various demands made. In 2018, we started scouting the equity funding and banking system community to evaluate possible openings to transactions (even extraordinary) relating to growth in the hotel sector (including real estate).

With particular regard to hotel development, Xenia has focused its attention on evaluating the preliminary responses of third-party lenders (banks, funds, etc.) also for restructuring and revamping its directly managed hotels.

There is an undeniable interest in the Company, even though it still presents elements of fragility in terms of income when measured with the parameters used, in particular, by equity industry.

We believe that the nature of our Company allows for and makes it advisable to continue using traditional instruments such as mortgages, guarantees, credit lines, etc. through banks, earmarking any funds for medium and long-term real estate transactions.

Financial risk is seen as being particularly important, since the Company is still in the process of consolidating its development policies.

Furthermore, by operating in a sector that - for the time being - is regarded as having a low-profit margins, it is necessary to use instruments commensurate with this factor.

Financial resources are used wisely and prudently, always assessing the liquidity risk, also in view of any circumstances that theoretically could arise. The continuation of a particularly unfavourable macroeconomic scenario and industry environment suggests that we should organize and structure the financing lines with medium and long term solutions, as appropriate, to suit the needs of development and short-term finance solutions for ordinary hotel operations. For these reasons, a hypothetical finance project was prepared in 2018, which we expect will be implemented in 2019 with the assumptions indicated.

14.5 OPERATIONAL RISK

With significant growth in the hotel industry, operational risks are present in a broader context than the past.

There are also areas within the distribution and crew accommodation segments that have particularly significant operational risks and expose the Company to both exogenous and endogenous events and to various categories of potentially negative circumstances.

The operational risks to which we are exposed are addressed and evaluated with the necessary in-depth analyses and are - for the most part - managed with tools and procedures that help mitigate their level.

14.6 REPUTATIONAL RISK

Reputational risk is one of the most significant risks for the sector in which the Company operates. Primarily, there may be negative effects due to potential consequences of ordinary or extraordinary activities that could result in loss of credibility or a negative perception of the Company and the services offered.

This risk is also linked to financial management and includes, but is not limited to, meeting payment deadlines with suppliers and partners or the proper performance of services included in contracts with customers.

The Company pays close attention to each and every possible element of risk. In this respect, it operates with the utmost transparency and oversight, fostering fair and constructive relations so that - less any ordinary or unusual situations that may still arise - any adverse event can be a step in strengthening our relations and trust.

Although not without its flaws and some obvious detractors, the almost thirty-year history of the Company properly supports and upholds its image on the market which has resulted in specific acknowledgments of its unfailing reliability.

Nevertheless, the business environment on the whole is aware of the fact that the dynamic nature of the businesses and the continuous changes that it creates requires persevering dedication and commitment to pursuing quality for our brands, so that we can increasingly establish and consolidate market recognition and appreciation.

14.7 EMERGING RISKS

Emerging risks are risks that may be developing or already exist and are difficult to identify, detect or quantify. They can stem from changes in the market contexts, social trends, technology, legislative changes, etc. Emerging risks also include any possible or probable operations that the Company may implement in the short term. For these risks, it is imperative to closely monitor the markets and the national and international context from all angles. The Company fosters the continuous exchange of ideas and dialogue with trade associations and other authoritative or market sources so that it can update its policies and its mission if necessary.

Geopolitical analysis is also very important for our industry. The issue of climate change is also of some importance, due to the significant impact it could have in the coming years in terms of choices and tourism flows.

Management is also responsible for intercepting any signals that may be of interest and remains open to considerations and observations with respect to current plans and/or the development of future plans.

15. SUBSEQUENT EVENTS

To complete the information provided in point 4.1 ***"MATERIAL EVENTS DURING AND AFTER THE REPORTING PERIOD"*** additional information is provided below on other subsequent events.

The Company won a new contract for PHI Hotels with a hotel located in the province of Treviso. Operations are scheduled to start on 1 April 2019, with the number of PHI Hotels rising to six.

There have been some preliminary discussions with some Funds for non-binding evaluations concerning possible future financing/ investments.

16. OUTLOOK

First and foremost, it is important to stress how important exogenous factors can quickly influence forecasts which - while taking due account of reasonable variables - are unable to exhaustively consider their influence.

The geopolitical landscape (especially in Europe) and the general macro/micro-economic climate call for a more detailed emphasis on the definition of predictability, which we do not wish to overlook in the considerations of this document.

The Company is of the opinion that it is important to place an emphasis on how there has been a significant decline in the possibility and capacity of forecasting the future.

With regard to endogenous factors, Xenia's forecast is fuelled by reasonableness, considering the foreseeable events based on its experience and knowledge of the facts and the resulting assumptions, with the intent to safeguard all stakeholders and the Company as a founding value of the context.

As regards our outlook, the main objective is to obtain growth in the hotel and distribution segments. The Company is determined to establish a sizeable hotel group in Italy over the next three years and will then consider reaching out to certain destinations abroad.

The results of the evaluation and/or the outcome of the aforementioned tender of one of our main customers in the crew accommodation segment will play a big role in how much we can achieve, in particular from 2020.

Exogenous factors such as economic and seasonal aspects, geopolitical events and environmental factors also affect the development of operations. All the businesses in which the company operates are very sensitive to outside events whilst retaining a basically solid framework.

In conclusion, in all likelihood 2019 will be the year in which the effects of the new business plan will become more apparent, reshaping the weight of the business segments and placing more emphasis on our vision to set up a hotel group and represent a benchmark in the distribution of hospitality offerings.

Guardiagrele, 15 March 2019

On behalf of the Board of Directors

The Chairman

Ercolino Ranieri





Xenia S.p.A.
Via A. Gramsci 79, 66016 Guardiagrele
Italy

Branch Office - Xenia Balkan Service
Donika Kastrioti, Pallati 14, Tirana
Albania

Company directed, managed and
coordinated by
PHI S.r.l. - one person company

www.phiglobalgroup.com