



GAROFALO HEALTH CARE S.P.A.

DIRECTORS' REPORT

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COMPANY INFORMATION

Registered office of Garofalo Health Care S.p.A.

Piazzale Delle Belle Arti, n.6 – 00196 Rome (RM)

Legal details of Garofalo Health Care S.p.A.

Share capital approved Euro 28,700,000

Share Capital subscribed and paid-in Euro 28,700,000 (*)

Rome Company's Registration Office – Economic & Administrative Index No.: 947074

Tax Number: 06103021009

VAT number 03831150366

Website: <http://www.garofalohealthcare.com>

() Registered in the Company's Registration Office on 12/02/2019*

CORPORATE BOARDS

BOARD OF DIRECTORS

ALESSANDRO MARIA RINALDI	Chairman
MARIA LAURA GAROFALO	Chief Executive Officer
NICOLA COLAVITO (**)	Director
PATRIZIA CRUDETTI	Director
CRISTINA FINOCCHI MAHNE (**)	Independent Director
CLAUDIA GAROFALO	Director
GIUSEPPE GIANNASIO (**)	Director
TOMMASO LONGHI (**)	Independent Director
FLAVIA MAZZARELLA (**)	Independent Director
ALESSANDRA RINALDI GAROFALO (**)	Director
UMBERTO SURIANI	Director

CONTROL, RISKS AND RELATED PARTIES COMMITTEE

FLAVIA MAZZARELLA	Chairperson
CRISTINA FINOCCHI MAHNE	
TOMMASO LONGHI	

APPOINTMENTS AND REMUNERATION COMMITTEE

CRISTINA FINOCCHI MAHNE	Chairperson
FLAVIA MAZZARELLA	
TOMMASO LONGHI	

BOARD OF STATUTORY AUDITORS

ALESSANDRO MUSAIO	Chairman
GIANCARLA BRANDA	Statutory Auditor
FRANCESCA DI DONATO	Statutory Auditor
ANDREA BONELLI	Alternate Auditor
JACOPO DOVERI	Alternate Auditor

INDEPENDENT AUDIT FIRM

EY S.p.A.

EXECUTIVE OFFICER FOR FINANCIAL REPORTING

FABIO TOMASSINI

(**) In office since November 9, 2018, the first day of the listing of the Company's shares on the MTA segment organized and managed by Borsa Italiana S.p.A.

CALL NOTICE

The ordinary Shareholders' Meeting of Garofalo Health Care S.p.A. is called to meet in ordinary session at 11:00 hours on May 24, 2019, in single call, at Via Arquà 80/A, Modena, in the Aula Magna room of the Hesperia Hospital, to discuss and vote upon the following:

Agenda

- 1) Financial Statements of Garofalo Health Care S.p.A. at December 31, 2018. 2018 Directors' Report. Report of the Board of Statutory Auditors and of the Independent Audit Firm. Presentation of the Consolidated Financial Statements at December 31, 2018 and of the consolidated non-financial report in accordance with Legislative Decree No. 254 of December 30, 2016 for 2018. Resolutions thereon.
- 2) Allocation of the net profit.
- 3) Revocation of the motion passed by the Shareholders' Meeting of September 26, 2018 and authorisation to purchase and dispose of treasury shares as per Articles 2357 and subsequent of the Civil Code, in addition to Article 132 of Legislative Decree No. 58 of February 24, 1998 and Article 144-*bis* of the Consob Regulation adopted with motion No. 11971/1999 and subsequent amendments. Resolutions thereon.
- 4) Supplementation of the fees for the appointment to audit the accounts. Resolutions thereon.
- 5) Consultation on the Remuneration Policy of Directors and Senior Executives.

Information on capital and information on:

- participation and voting in the Shareholders' Meeting (in this regard, it should be noted that the record date is May 15, 2019);
- rights to submit questions before the Shareholders' Meeting;
- supplementation of the Agenda and proposals on matters already on the Agenda of the Shareholders' Meeting;
- exercise of proxy voting;
- the availability of the entire text of the proposals to be voted upon, together with the illustrative reports and the documents which will be put to the Shareholders' Meeting;
- the organizational aspects of the Shareholders' Meeting;

are included in the complete call notice, the text of which, together with the Shareholders' Meeting documentation, are published on the Company's website www.garofalohealthcare.com, section Governance/Shareholders' Meeting documentation, to which reference should be made.

The Shareholders' Meeting documentation - including the illustrative reports on the matters on the agenda and the relative proposals, along with the annual financial report - shall be made available to the public, in accordance with the applicable regulation, at the registered office and in the section of the company website dedicated to this Shareholders' Meeting.

This excerpt will be published in the daily newspaper *MF Milano Finanza* and on the centralized storage facility "1Info" (www.1info.it).

Rome, April 24, 2019

The Chairman of the Board of Directors

Alessandro Maria Rinaldi

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

For the GHC Group, 2018 was the year of an extraordinary leap forward.

In November of last year – at a time when many believed that the clouds of international financial tension hanging over Italy were too threatening to allow us to continue with our IPO project, and although many suggested that we should desist – the GHC Group became the first Italian healthcare company to hold a successful initial public offering on the MTA segment of Borsa Italiana, oversubscribed by a multiple of three times the shares offered, with the majority of the interest shown by international investors.

This truly significant event proved to us once again that risks, challenges and difficulties, while taxing and demanding, may always be overcome when we believe deeply in the goals that we have set for ourselves and in the strength of the values that help guide us as we seek to achieve those goals.

It is these very values, springing from the company's more than 60 years of history, that form the foundation for the sound, robust growth performance achieved during the year ended December 31, 2018.

Revenues climbed to Euro 155.6 million, up by 2.3% compared with the 2017 pro-forma figure. Operating EBITDA, adjusted for one-off costs relating to the IPO, was Euro 29.8 million, resulting in a best-in-class margin of 19.1%. On a like-for-like basis, this performance marked a sharp improvement on the previous year, when Operating EBITDA Pro-Forma amounted to Euro 27.4 million and the margin to 18.0%. During the year, excluding the effects of the IPO and other non-recurring items, the Company generated slightly under Euro 20 million in cash, promising a bright future of sustainable growth for all shareholders in the medium term.

Three factors have been key to this success: 1) the excellence of our facilities; 2) non-organic growth according to a business model diversified by both geographical area and segment; and 3) a constant focus on integrating the Group's various companies, while also improving management efficiency.

At December 31, 2018 the Group had 18 premier care facilities located in six regions of Italy (Lazio, Piedmont, Veneto, Emilia-Romagna, Tuscany and Liguria), offering a full spectrum of both hospital and local residential and outpatient care services. These outstanding facilities are equipped with cutting-edge equipment and staffed by professionals recognized as the finest in their disciplines, in Italy and internationally, owing to the large number of publications to their credit in major international scientific periodicals and the innovative treatment protocols that they have contributed to the system. The patient-centric organizational model adopted at all of our facilities is a seal of quality that offers further peace of mind.

GHC also continues to invest in the growth and development of its facilities, as witnessed by the "School" project, involving the purchase of a former school building in Genoa intended to become the new base of operations for the accredited services currently offered at the Santa Marta facility, resulting in the creation of a completely private residential care facility. Also noteworthy is the Gravellona Toce project, involving the expansion of Istituto Raffaele Garofalo, aimed at separating outpatient services from inpatient rehabilitation, while also enhancing outpatient specialist care provided privately and on an accredited basis. Significant progress was made on both projects during the year, and we can therefore confirm that the facilities will become operational in 2020 and 2021, respectively, as previously announced.

This is in addition to the Group's ability to grow non-organically, as a hub attracting other sound, well-managed companies led by entrepreneurs who share our values and who therefore may be integrated into our project

effectively, contributing to its growth and development. This expertise has deep roots that stretch back to the first acquisition of Eremo di Miazzina in 1999. Since then, each new company acquired has been successfully integrated, contributing to the sound, balanced development of the GHC Group.

This very track record, combined with a solid financial position that boasts Euro 92.3 million in cash at hand at December 31, 2018, exceeding debt by Euro 47.3 million, allows GHC to continue to look ahead to significant new M&A opportunities, according to the same clear, well-defined strategy, as was also the case, at the beginning of this year, with the acquisition of Poliambulatorio Dalla Rosa Prati S.r.l. of Parma, which further strengthened the Group's position in the region of Emilia-Romagna, one of the strongest in Italy, and with the acquisition of additional shares in Casa di Cura Prof. Nobili, which increased the total interest in GHC to 98.81% of voting rights.

As the market enters a period of natural and gradual consolidation, we believe that our Group is ideally placed to tap into the best growth opportunities available, following on from the "Buy and Build" strategy that we have always pursued to the great profit and benefit of all stakeholders.

It is to you, the shareholders – to whom we extend our gratitude for the trust shown in us – that we devote our unceasing efforts to ensure that our ambitious goals continue to be achieved and your expectations fully met.

The Chief Executive Officer

Maria Laura Garofalo

DIRECTORS' REPORT

1. GROUP STRUCTURE

Group profile

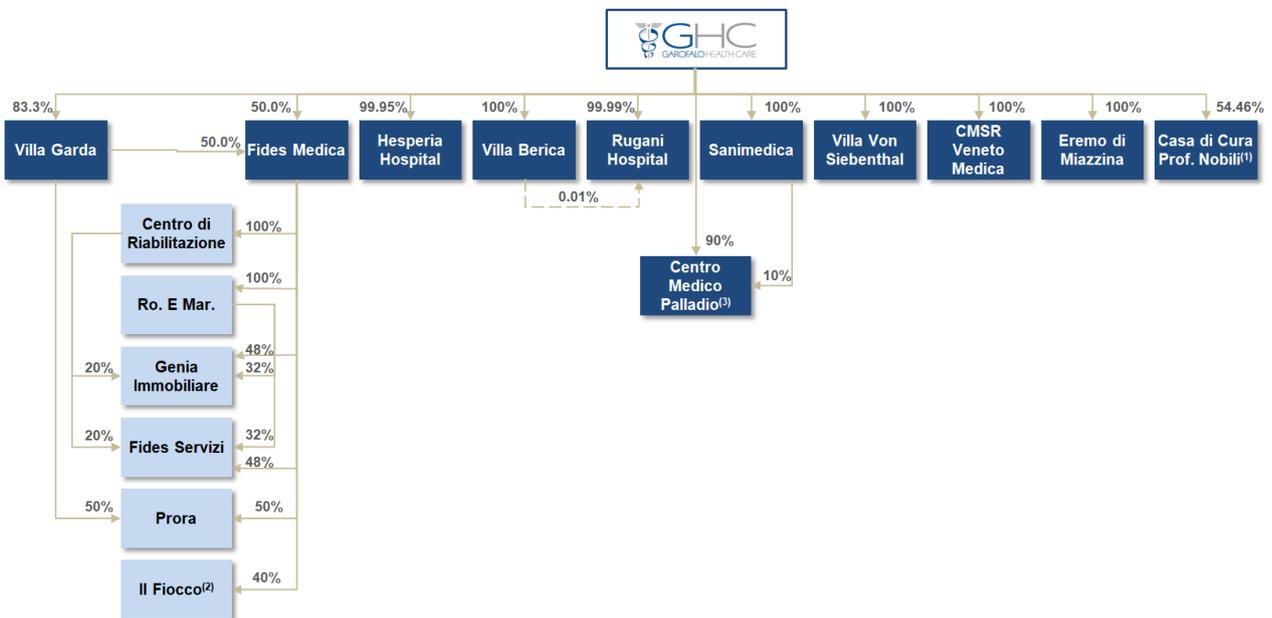
The Group operates 18 ⁽¹⁾ healthcare facilities that have been authorized and accredited by Italy's National Health System ("NHS"), almost all of which are based in properties owned by subsidiaries of GHC S.p.A. (only three of the facilities are leased), spread throughout the following regions of Italy: Piedmont (two), Veneto (five), Tuscany (one), Emilia-Romagna (two), Lazio (one) and Liguria (seven).

The geographical diversification of the GHC Group's facilities represents one of the Group's strengths, due to their locations, primarily in regions of northern and central Italy that are attractive in terms of: i) per capita health spending, ii) above-average per capita income for Italy; iii) sound financial health of the Regional Health Service; and iv) internal transport infrastructure.

Another of the Group's distinctive traits and strengths is its diversification by business segment, since the Group's facilities offer both hospital and local residential and outpatient care services.

Group Structure

The chart below shows the GHC Group's structure at December 31, 2018 ⁽²⁾, including the holding company's equity interest in each of the subsidiaries:



(1) Holding incl. treasury shares of 3.5% of the share capital
 (2) Only minority holding consolidated with equity method
 (3) Company in liquidation

⁽¹⁾ Through its subsidiary Fides Medica S.r.l., the Group holds a 40% interest in Il Fiocco S.c.a.r.l., which operates four additional facilities.
⁽²⁾ On February 5, 2019 the Group closed the acquisition of Poliambulatorio Dalla Rosa Prati S.r.l., as also discussed in the paragraph on significant events after the year end.

Significant shareholders

The table below reports the GHC Group's ownership structure at December 31, 2018, including significant equity interests.

Number of ordinary shares	% share capital	Listed / Non listed	Rights and obligations
82,000,000	100%	MTA	<p>Every share has the right to one vote. In accordance with Art. 127-<i>quinquies</i> of the CFA, Article 7 of the By-laws states that each share held by the same shareholder for a continuous period of at least 24 months from the date of registration in the special list specifically established by the Company confers two votes. For further information, reference should be made to paragraph 2, letter d), of the Corporate Governance Report.</p> <p>The shareholders' rights and obligations are as established in Articles 2346 <i>et seq.</i> of the Italian Civil Code and Article 7 of the By-laws with regard to multi-voting rights.</p>

Shareholder	Direct shareholder	% of ordinary share capital	% of voting share capital
Garofalo Maria Laura ⁽³⁾	Anrama S.p.A.	70.798%	80.373%
	Larama 98 S.p.A.		
	Garofalo Maria Laura		
Peninsula Capital II S.a.r.l. ⁽⁴⁾	PII 4 S.à.r.l.	9.968%	6.700%

As previously reported, in accordance with Art. 127-*quinquies* of the CFA, Article 7 of the By-laws states that each share held by the same shareholder for a continuous period of at least 24 months from the date of registration in the special list specifically established by the Company (the "List") confers two votes.

After receiving valid applications for registration, the Company adds new entries to and updates the List with quarterly frequency, i.e. on March 31, June 30, September 30 and December 31 of each year, or with a different frequency in accordance with industry legislation, but always by the record date.

In accordance with Article 127-*quinquies*, paragraph 7, of the CFA, Article 7 of the By-laws states that shares held prior to the commencement date of trading, and hence prior to the date of registration in the List, are also to be considered for the purpose of completing the period of continuous ownership required for multi-voting rights.

According to the By-laws, multi-voting rights are also considered when evaluating quorum requirements to meet and pass resolutions based on percentages of share capital. In addition, multi-voting rights are without any effect on rights other than voting rights devolving on the basis of the possession of a particular portion of capital, such as the right to convene the Shareholders' Meeting, the right to add items to the agenda and the right to submit slates for the election of directors. For further information, please refer to the Multi-Voting Rights Regulation available from the Company's website, www.garofalohealthcare.com, which in accordance with Article 143-*quater* of the Consob Issuers' Regulation also presents the identification details of the shareholders who have applied for registration in the List, with indication of their individual holdings – in any event exceeding the threshold indicated by Article 120, paragraph 2 of the CFA – date of registration and date of attainment of multi-vote rights.

⁽³⁾ Source: GHC Group

⁽⁴⁾ Source: GHC Group and Consob; figures at December 31, 2018.

2. GROUP PERFORMANCE

The tables presented below provide an overview of the Group's performance on the basis of various selected financial performance, financial position and cash flow indicators for 2018, with a comparison to 2017.

In order to ensure that the Company's performance figures are sufficiently comparable with those from 2017, the tables from 2017 have also been presented on a pro-forma basis, i.e. by retro-actively extending the effect of the acquisitions of 100% of the Fides Medica Group (undertaken in June 2017) and of 54.46% of Casa di Cura Prof. Nobili S.p.A. (undertaken in December 2017) back to January 1, 2017.

For additional information regarding the pro-forma figures or the acquisitions undertaken in 2017, please see the Prospectus prepared for the admission of the GHC Group's shares to listing on the MTA segment of Borsa Italiana S.p.A., as published on the Group's website.

In addition to the IFRS-compliant indicators included in the official reporting formats, this Directors' Report also presents various alternative performance measures (APM's) employed by the management to monitor and evaluate the Group's performance.

The details of the calculation of the APM's set out below are presented in a specific section of this report, to which the reader should refer for all further information.

GHC Group 2018 consolidated income statement highlights

A breakdown of the Group's condensed consolidated income statement for the years ended December 31, 2018 and December 31, 2017 (actual and pro-forma) is provided below.

Consolidated data	2018		2017 Actual		2017 Pro-Forma		Cge. vs. 2017A		Cge. vs. 2017PF	
	Eur '000	%	Eur '000	%	Eur '000	%	Euro '000	%	Euro '000	%
Revenues	155,637	100.0%	136,666	100.0%	152,188	100.0%	18,971	13.9%	3,449	2.3%
Total operating costs (exc. listing costs)	(125,841)	-80.9%	(111,784)	-81.8%	(124,746)	-82.0%	(14,057)	12.6%	(1,095)	0.9%
Operating EBITDA Adjusted	29,795	19.1%	24,882	18.2%	27,442	18.0%	4,913	19.7%	2,353	8.6%
Listing costs	(4,037)	-2.6%	-	-	-	-	-	-	-	-
Operating EBITDA	25,758	16.6%	24,882	18.2%	27,442	18.0%	876	3.5%	(1,684)	-6.1%
EBIT	18,996	12.2%	17,038	12.5%	19,060	12.5%	1,958	11.5%	(64)	-0.3%
EBIT Adjusted	23,033	14.8%	17,038	12.5%	19,060	12.5%	5,995	35.2%	3,973	20.8%
Result before taxes	18,032	11.6%	17,015	12.5%	18,926	12.4%	1,017	6.0%	(894)	-4.7%
Result before taxes Adjusted	22,069	14.2%	17,015	12.5%	18,926	12.4%	5,054	29.7%	3,143	16.6%
Income taxes	(3,964)	-2.5%	(4,706)	-3.4%	(5,333)	-3.5%	742	-15.8%	1,369	-25.7%
Net result	14,069	9.0%	12,309	9.0%	13,593	8.9%	1,760	14.3%	476	3.5%
Group net result	13,583	8.7%	12,241	9.0%	13,176	8.7%	1,342	11.0%	407	3.1%
Minority interests	486	0.3%	68	0.0%	417	0.3%	418	614.7%	69	16.5%

GHC's 2018 consolidated revenues rose to Euro 155,637 thousand (from Euro 136,666 thousand for 2017), up 13.9% thanks to organic growth ⁽⁵⁾ (+2.5%) and M&A's relating to the acquisitions in 2017 (+11.4%, from the acquisitions of Fides Medica Group in June 2017 and of Casa di Cura Prof. Nobili in December 2017). These results include the overall contribution of Euro 704 thousand from the agreement reached by the Group company Villa Von

⁽⁵⁾ At like-for-like consolidation scope, considering GHC's two acquisitions in 2017 (Fides Medica Group, acquired in June 2017 and comprising Fides Medica S.r.l. and its direct and indirect subsidiaries, and Casa di Cura Prof. Nobili S.p.A., acquired in December 2017)

Siebenthal Srl with the Rome Healthcare Authority and the Lazio Region for the recognition of appropriate tariffs and relating to adolescence assistance services. The above amount concerns 2018 for Euro 451 thousand and 2017 for the remaining Euro 253 thousand. This contribution is added to the preliminary consolidated figures announced on February 27, 2019.

Revenues in Euro millions	2018	2017	% vs. 2017	of which organic vs. 2017	of which M&A vs. 2017
Total	155,637	136,666	13.9%	2.5%	11.4%

2018 consolidated revenues grew 2.3% on 2017 Pro-Forma consolidated revenues, which have been calculated for comparability and amount to Euro 152,188 thousand.

Revenues in Euro millions	2018	2017 Pro-forma	% vs. 2017 Pro-forma	of which organic vs. 2017PF	of which M&A vs. 2017PF
Total	155,637	152,188	2.3%	2.3%	-

Net of IPO costs, consolidated operating costs increased by Euro 14,057 thousand from Euro 111,784 thousand in 2017 to Euro 125,841 thousand in 2018, while declining from 81.8% of total revenues in 2017 to 80.9% in 2018, a decrease of 0.9%.

Compared with the 2017 pro-forma figures – provided to ensure a uniform comparison on a like-for-like basis – operating costs increased by Euro 1,095 thousand, declining by 1.1% as a percentage of total revenues.

In terms of margins, the results indicate the solid advancement of Consolidated Operating EBITDA Adjusted⁽⁶²⁾, neutralizing the listing costs, which amounts to Euro 29,795 thousand and was up 19.7% on Euro 24,882 thousand for the previous year, with significant contributions both from the organic component (+8.3%) and M&A's relating to the acquisitions in 2017 (+11.4%).

This result - an indicator of Group core operations - adjusts Operating EBITDA for costs incurred by the company for its listing on the main market of the Italian Stock Exchange and recognised to the income statement in the year of approx. Euro 4,037 thousand⁽⁷⁾.

In 2018, the Group's Operating EBITDA Adjusted margin, neutralizing the IPO costs, was 19.1%, also improving on 18.2% in the previous year.

Adj. Op. EBITDA in Euro millions	2018	2017	% vs. 2017	of which organic vs. 2017	of which M&A vs. 2017
Total	29,795	24,882	+19.7%	+8.3%	+11.4%
Margin (%)	19.1%	18.2%	-	-	-

Consolidated Operating EBITDA Adjusted for 2018 grew 8.6% against Pro-Forma Operating EBITDA for 2017, calculated to ensure like-for-like consolidation scope and amounting to Euro 27,442 thousand.

Adj. Op. EBITDA in Euro millions	2018	2017 Pro-forma	% vs. 2017 Pro-Forma	of which organic vs. 2017PF	of which M&A vs. 2017PF
Total	29,795	27,442	+8.6%	+7.6%	+1.0%
Margin (%)	19.1%	18.0%	-	-	-

⁽⁶⁾ See the specific section of this report for a definition of Operating EBITDA Adjusted, net of IPO costs.

⁽⁷⁾ Total listing costs of approx. Euro 7.3 million, of which approx. Euro 4.0 million expensed to the Income Statement and Euro 3.3 million recognised to Shareholders' Equity.

Consolidated EBIT in 2018 was Euro 18,996 thousand, compared to Euro 17,038 thousand in 2017; the increase reflects the progression of Operating EBITDA and the impact from releases from the risks and charges provision in excess of accruals.

EBIT, neutralising the IPO costs (Adjusted EBIT), was Euro 23,033 thousand, compared to Euro 17,038 thousand in 2017 and Euro 19,060 thousand in 2017 Pro-Forma, up respectively Euro 5,995 thousand and Euro 3,973 thousand.

Financial management in 2018 reported net financial charges of Euro 984 thousand regarding the financial debt, with the account in 2017 benefiting from interest on arrears received from the subsidiary l'Eremo di Miazzina for a total of Euro 747 thousand.

The Profit before taxes in 2018 was Euro 18,032 thousand. The adjusted profit before taxes, net of IPO costs, was Euro 22,069 thousand, up by Euro 5,054 thousand on Euro 17,015 thousand in 2017 and by Euro 3,143 thousand on the 2017 pro-forma figure of Euro 18,926 thousand.

Net profit in 2018 was Euro 14,069 thousand, an increase of Euro 1,760 thousand on Euro 12,309 thousand in 2017 and of Euro 476 thousand on the 2017 pro-forma figure of Euro 13,593 thousand.

GHC Group 2018 consolidated balance sheet highlights

A breakdown of the Group's condensed consolidated balance sheet at December 31, 2018 and December 31, 2017 is provided below.

Consolidated data	2018	2017	Cge. vs. 2017
Uses	Eur '000	Eur '000	Euro '000
Goodwill	38,815	38,815	(0)
Intangible and tangible assets	108,225	105,289	2,936
Financial assets	2,420	844	1,576
I Fixed capital	149,460	144,948	4,512
Trade Receivables	35,239	38,399	(3,160)
Inventories	2,218	2,352	(134)
Trade Payables	(20,751)	(19,296)	(1,455)
Net operating working capital	16,707	21,455	(4,748)
Other assets and liabilities	(7,599)	(10,323)	2,724
II Net working capital	9,108	11,132	(2,024)
Net deferred taxes	(5,135)	(4,316)	(819)
Provisions	(14,919)	(17,516)	2,597
III Total uses (Net Capital Employed)	138,513	134,248	4,265

Non-current assets amounted to Euro 149,460 thousand at December 31, 2018, up by Euro 4,512 thousand on December 31, 2017, primarily due to the increase in assets in progress relating to the Gravellona Toce and Santa Marta (Former School) expansion projects and the increase in financial assets relating to the advance on the price of acquisition of Poliambulatorio Dalla Rosa Prati S.r.l.

Net capital employed at December 31, 2018 amounted to Euro 138,513 thousand, an increase of Euro 4,265 thousand on Euro 134,248 thousand at December 31, 2017, primarily owing to the increase in net capital employed of Euro 4,512 thousand, against a decline in net working capital of Euro 2,024 thousand.

Consolidated data	2018	2017	Cge. vs. 2017
	Eur '000	Eur '000	Euro '000
Liquidity	(92,287)	(22,635)	(69,652)
Financial debt	44,946	55,006	(10,060)
I Net financial debt	(47,341)	32,371	(79,712)
Minority interest net equity	7,005	6,611	394
Group Shareholders' Equity	178,849	95,266	83,583
II Shareholders' Equity	185,854	101,877	83,977
III Total sources of financing	138,513	134,248	4,265

At December 31, 2018, the Net Financial Position (NFP) of GHC was a negative Euro 47,341 thousand, i.e. a surplus of cash over financial debt. This amount is based on liquidity of Euro 92,287 thousand and a debt of Euro 44,946 thousand. This indicator reduced by Euro 79,712 thousand over December 31, 2017. This change in the NFP at December 31, 2018 follows a generation of cash by the Group of Euro 19,744 thousand the receipt of income from the IPO, net of costs incurred for the operation of approx. Euro 66,126 thousand, the utilisation of cash for non-recurring components totalling Euro 6,158 thousand (related to the expansion projects at "Gravellona Toce" and the "ex-Scuola" and the advance payment of a portion of the acquisition price of Poliambulatorio Dalla Rosa Prati S.r.l.).

The Group's shareholders' equity amounted to Euro 185,854 thousand at December 31, 2018, a net increase of Euro 83,977 thousand on the Euro 101,877 thousand at December 31, 2017. The change was due to the net effects of the increase in capital in conjunction with the IPO and the earnings retained in 2018.

Summary of principal alternative performance indicators reported for the GHC Group and basis of preparation

The GHC Group utilizes some alternative performance measures ("APM's"), which are not identified as accounting measures within IFRS, for management's view on the performance of the Group. These alternative performance measures exclusively concern historical data of the Group and determined in accordance with those established by the Alternative Performance Indicators Orientations issued by ESMA/2015/1415 and adopted by CONSOB with communication No. 92543 of December 3, 2015. The APM's in this Report refer to the performance for the accounting period of the present Annual Financial Report and of the comparative periods and not to the expected performance of the Group and must not be considered as replacement of the indicators required by the accounting standards (IFRS).

The alternative performance measures utilised in the current report are as follows:

Operating EBITDA Adjusted

This measure, which adjusts Operating EBITDA by excluding the IPO costs of Euro 4,037 thousand charged to the income statement in 2018, is presented in order to eliminate non-recurring charges from performance in 2018.

Operating EBITDA Adjusted was up 19.7% on Euro 24,882 thousand for the previous year, with contributions from both organic (+8.3%) and M&A's (+11.4%, relating to acquisitions in 2017).

Operating EBITDA Adjusted for 2018 grew 8.6% against Pro-Forma 2017, calculated to ensure like-for-like consolidation scope and amounting to Euro 27,442 thousand.

Consolidated data	2018	2017	2017 Pro-Forma
	Eur '000	Eur '000	Eur '000
Operating EBITDA	25,758	24,882	27,442
Listing costs recognised to Income Statement	4,037	-	-
Operating EBITDA Adjusted	29,795	24,882	27,442

EBIT Adjusted

This measure, which adjusts EBIT by excluding the IPO costs of Euro 4,037 thousand charged to the income statement in 2018, is presented in order to eliminate non-recurring charges from performance in 2018.

The increase in EBIT Adjusted on 2017 primarily benefited from the increase in Operating EBITDA Adjusted, as commented upon above, and from the positive impact tied to the release of part of the provision for risks following the resolution of several disputes.

Consolidated data	2018	2017	2017 Pro-Forma
	Eur '000	Eur '000	Eur '000
EBIT	18,996	17,038	19,060
Listing costs recognised to Income Statement	4,037	-	-
EBIT Adjusted	23,033	17,038	19,060

Operating EBITDA Margin Adjusted

The Operating EBITDA Margin Adjusted is calculated as Operating EBITDA Adjusted as a percentage of revenues.

In 2018, the Group's Operating EBITDA Margin Adjusted, neutralising the IPO costs, was 19.1%, also improving on 18.2% in the previous year and 18.0% for 2017 Pro-Forma.

Consolidated data	2018	2017	2017 Pro-Forma
	Eur '000	Eur '000	Eur '000
Operating EBITDA Adjusted	29,795	24,882	27,442
Revenues	155,637	136,666	152,188
Operating EBITDA Adjusted Margin	19.1%	18.2%	18.0%

EBIT and Operating EBITDA

The Group's consolidated Net Profit, EBIT and consolidated Operating EBITDA for the periods 2018, 2017 (actual) and 2017 (pro-forma) are reconciled below.

Consolidated data	2018	2017	2017 Pro-Forma
	Eur '000	Eur '000	Eur '000
Net Profit	14,069	12,309	13,593
Income taxes	3,964	4,706	5,333
Total investments at equity	(201)	(32)	(32)
Financial charges	1,175	930	1,131
Financial income	(10)	(875)	(965)
EBIT	18,996	17,038	19,060
Amortisation, depreciation and provisions	7,749	5,920	6,407
Doubtful debt provision	(987)	1,924	1,975
Operating EBITDA	25,758	24,882	27,442

ROI

ROI, i.e. return on investment, is calculated as EBIT Adjusted as a percentage of net capital employed.

This measure, which stood at 16.6% in 2018, up from 12.7% in 2017 and 14.2% in 2017 pro-forma, improved primarily as a result of the increase in adjusted EBIT already commented upon above.

Consolidated data	2018	2017	2017 Pro-Forma
	Eur '000	Eur '000	Eur '000
EBIT Adjusted (A)	23,033	17,038	19,060
Net Capital Employed (B)	138,513	134,248	134,248
ROI (A/B)	16.6%	12.7%	14.2%

ROE

ROE is calculated as net profit for the year as a percentage of the shareholders' equity presented in the Group's consolidated financial statements.

This measure declined on 2017, chiefly owing to the increase in shareholders' equity following the capital increase as part of the IPO process.

Consolidated data	2018	2017	2017 Pro-Forma
	Eur '000	Eur '000	Eur '000
Net result (A)	14,069	12,309	13,593
Shareholders' Equity (B)	185,854	101,878	101,878
ROE (A/B)	7.6%	12.1%	13.3%

Capital Expenditure (Capex)

This measure is calculated on the basis of the total investments in property, plant and equipment and intangible assets (excluding the investments in the Gravellona Toce and Former School expansion projects).

Capital expenditures amounted to Euro 3,738 thousand, up from Euro 2,650 thousand in 2017, primarily due to the investment made by Hesperia Hospital S.p.A. of Euro 1,934 thousand to purchase the latest-generation Da Vinci robotic system.

Consolidated data	2018	2017
	Eur '000	Eur '000
Investments in tangible assets	3,627	2,530
Investments in intangible assets	111	120
Capital Expenditure (Capex)	3,738	2,650

Cash Conversion

This indicator has been calculated on the basis of Operating EBITDA Adjusted, net of ordinary capital expenditures, in relation to Operating EBITDA. A breakdown of the calculation of this ratio for the years 2018 and 2017 pro-forma, deemed most significant for comparative purposes, is provided below.

The ratio stood at 87.5% in 2018, slightly below the levels recorded in 2017 pro-forma due to the effect of the greater investments.

Consolidated data	2018	2017 Pro-Forma
	Eur '000	Eur '000
Operating EBITDA Adjusted	29,795	27,442
Capex	3,738	2,706
Cash conversion	87.5%	90.1%

Net Financial Debt

Net financial debt was calculated according to the approach outlined in ESMA/2013/319 and Consob Communication No. DEM/6064293 of July 28, 2006. A breakdown of the composition of net financial debt in 2018 and 2017 is provided below.

Consolidated data	2018	2017	Cge. vs. 2017
	Eur '000	Eur '000	Euro '000
A Cash	123	91	32
B Cash and cash equivalents	92,164	22,544	69,620
C Securities held-for-trading	-	-	-
D Liquidity (A) + (B) + (C)	92,287	22,635	69,652
E Current financial receivables	135	3	132
F Current bank payables	10,954	14,322	(3,367)
G Current portion of non-current debt	5,070	5,624	(554)
H Other current financial payables	6,129	561	5,568
I Current debt (F)+(G)+(H)	22,153	20,507	1,646
J Net current financial debt (I) - (E) - (D)	(70,269)	(2,131)	(68,138)
K Non-current bank payables	22,700	27,758	(5,058)
L Bonds issued	-	-	-
M Other non-current payables	228	6,744	(6,516)
N Non-current financial debt (K) + (L) + (M)	22,928	34,502	(11,574)
O Net financial debt (J)+(N)	(47,341)	32,371	(79,713)

Net Financial Debt / Operating EBITDA Adjusted

The ratio of Net Financial Debt to Operating EBITDA Adjusted is based on the Net Financial Debt stated in the Group's annual consolidated financial statements and Operating EBITDA Adjusted, as defined above. A breakdown of the calculation of this ratio for the years 2018 and 2017 pro-forma, deemed most significant for comparative purposes, is provided below.

The ratio of Net Financial Debt to Operating EBITDA Adjusted in 2018 was negative, due to the cash surplus, primarily as a result of the proceeds of the IPO.

Consolidated data	2018	2017 Pro-Forma
	Eur '000	Eur '000
Net financial debt	(47,341)	32,371
Operating EBITDA Adjusted	29,795	27,442
Net Financial Debt / Operating EBITDA Adjusted	(1.6)	1.2

Net Financial Debt / Net Equity

The ratio of Net Financial Debt to Net Equity is calculated the ratio of Net Financial Debt to Net Equity, both as stated in the Group's Annual Consolidated Financial Statements. In 2018 this ratio was negative, due to the cash surplus, primarily as a result of the proceeds of the IPO.

Consolidated data	2018	2017
	Eur '000	Eur '000
Net financial debt	(47,341)	32,371
Shareholders' Equity	185,854	101,878
Ratio between net financial debt and shareholders' equity	(0.3)	0.3

Days sales outstanding

Days sales outstanding are defined as the ratio of the Trade receivables stated in the Group's Annual Consolidated Financial Statements to Revenues from services, as also stated in the Annual Consolidated Financial Statements, multiplied by the number of days in the reporting year. A breakdown of the calculation of this ratio for the years 2018 and 2017 pro-forma, deemed most significant for the purposes of comparison with 2017 actual figures, is provided below.

Days sales outstanding in 2018 declined to 84, compared with 93 days in 2017 pro-forma, in keeping with the downwards trend also witnessed in previous years.

Consolidated data	2018	2017 Pro-Forma
	Eur '000	Eur '000
Trade receivables	35,239	38,399
Revenues from services	153,268	150,710
Days sales outstanding	84	93

Days purchases outstanding

Days purchases outstanding are defined as the ratio of the Trade payables stated in the Group's Annual Consolidated Financial Statements to the sum of Raw materials and consumables, Service costs and Other operating costs, as also stated in the Group's Annual Consolidated Financial Statements, multiplied by the number of days in the reporting year. A breakdown of the calculation of this ratio for the years 2018 and 2017 pro-forma, deemed most significant for the purposes of comparison with the 2017 figures, is provided below.

Days purchases outstanding came to 90 in 2018, essentially unchanged on 89 days in 2017 pro-forma.

Consolidated data	2018	2017 Pro-Forma
	Eur '000	Eur '000
Trade payables	20,751	19,296
Raw materials and services	84,108	78,994
Days purchases outstanding	90	89

Days inventory outstanding

Days inventory outstanding are defined as the ratio of the Inventories stated in the Group's Annual Consolidated Financial Statements to Raw materials and consumables as also stated in the Annual Consolidated Financial Statements, multiplied by the number of days in the reporting year. A breakdown of the calculation of this ratio for the years 2018 and 2017 pro-forma, deemed most significant for the purposes of comparison with 2017 actual figures, is provided below.

In 2018 this value stood at 38 days, down from 42 days in 2017 pro-forma, due to the combined effect of the reduction in Inventories and the increase in the costs of Raw materials and consumables.

Consolidated data	2018	2017 Pro-Forma
	Eur '000	Eur '000
Inventories	2,218	2,352
Raw materials and consumables	21,268	20,684
Days inventory outstanding	38	42

Accounts receivable turnover

Accounts receivable turnover is defined as the ratio of the Trade receivables stated in the Group's Annual Consolidated Financial Statements to Revenues from services, as also stated in the Group's Annual Consolidated Financial Statements. A breakdown of the calculation of this ratio for the years 2018 and 2017 pro-forma, deemed most significant for the purposes of comparison with 2017 actual figures, is provided below.

For an analysis of the change in this indicator, refer to the comments provided on the change in days sales outstanding.

Consolidated data	2018	2017 Pro-Forma
	Eur '000	Eur '000
Trade receivables	35,239	38,399
Revenues from services	153,268	150,710
Accounts receivable turnover - (Trade receivables) / Revenues	0.2	0.3

Accounts payable turnover

Accounts payable turnover is defined as the ratio of the Trade payables stated in the Group's Annual Consolidated Financial Statements to the sum of costs of Raw materials and consumables and Service costs, as also stated in the Group's Annual Consolidated Financial Statements. A breakdown of the calculation of this ratio for the years 2018 and 2017 pro-forma, deemed most significant for the purposes of comparison with 2017 actual figures, is provided below.

For an analysis of the change in this indicator, refer to the comments provided on the change in days purchases outstanding.

Consolidated data	2018	2017 Pro-Forma
	Eur '000	Eur '000
Trade payables	20,751	19,296
Raw materials and services	84,108	78,994
Accounts payable turnover (Trade payables / Costs for raw materials and services)	0.2	0.2

Rotation of inventories ratio

The Rotation of inventories ratio is defined as the ratio of the Inventories stated in the Group's Annual Consolidated Financial Statements to the costs of Raw materials and consumables, as also stated in the Group's Annual Consolidated Financial Statements. A breakdown of the calculation of this ratio for the years 2018 and 2017 pro-forma, deemed most significant for the purposes of comparison with 2017 actual figures, is provided below.

For an analysis of the change in this indicator, refer to the comments provided on the change in days inventory outstanding.

Consolidated data	2018	2017 Pro-Forma
	Eur '000	Eur '000
Inventories	2,218	2,352
Raw materials and consumables	21,268	20,684
Rotation of inventories ratio (Inventories / Cost for raw materials and consumables)	0.1	0.1

3. PARENT COMPANY PERFORMANCE

Garofalo Health Care S.p.A. in November 2018 was listed on the Italian Stock Exchange by means only of a share capital increase, in order to raise the funding necessary to support its "Buy and Build" acquisition-led growth strategy and with a view to further geographical diversification and the development of the range of activities and services offered.

2018 revenues were Euro 1,200 thousand and related to the partial recharges of Parent Company costs to the subsidiaries for administrative co-ordination, financial, corporate and IT services.

Operating EBITDA reported a loss of Euro 4,653 thousand as a result of the costs incurred by the Company during the year for the execution of Parent Company core operations and the non-recurring listing costs of Euro 4,037 thousand.

The 2018 net profit was Euro 4,993 thousand, with the return of net financial income of Euro 7,705 thousand, including the distribution of dividends of Euro 8,097 thousand which offset the financial charges component.

Individual data	2018	2017	Cge. vs. 2017A
	Eur '000	Eur '000	Euro '000
Revenues	1,200	3	1,197
Operating EBITDA	(4,653)	(375)	(4,278)
Result before taxes	2,983	10,043	(7,060)
Net result	4,993	10,008	(5,015)

The condensed balance sheet of Garofalo Health Care S.p.A. at December 31, 2018, with a comparison to one year earlier, is presented below.

Alternative performance measures relating to equity and financial data	2018	2017	Cge. vs. 2017A
	Eur '000	Eur '000	Euro '000
Net capital employed	85.774	80.747	5.027
Shareholders' Equity	143.026	67.875	75.151
Net financial debt	(57.252)	12.872	(70.124)

Net Capital Employed amounted to Euro 80,747 thousand and consisted primarily of equity investments in subsidiaries of Euro 74,872 thousand. The change of Euro 5,027 in the figure at December 31, 2018 compared with December 31, 2017 is primarily to be viewed in relation to the advance of Euro 1,500 thousand paid following the execution of the preliminary purchase agreement for 100% of Poliambulatorio dalla Rosa Prati S.r.l., greater trade receivables of Euro 1,168 thousand referring to fees invoiced to subsidiaries for services rendered by the holding company and Euro 1,651 thousand due to the increase in the IRES tax receivable claimed by GHC S.p.A. due to the tax loss reported by this latter company in connection with the costs of the IPO.

Net Equity at December 31, 2018 amounted to Euro 143,026 thousand, compared with Euro 67,875 thousand at the end of the previous year, marking a net increase of Euro 75,151 thousand, attributable to (i) the cash proceeds of the IPO on the MTA segment of Euro 70,163 thousand, net of costs taken directly to equity of Euro 3,317 thousand, (ii) the Net Profit for the year of Euro 4,993 thousand and (iii) other minor changes arising from the application of the international accounting standard IAS 19 to the value of employee benefits.

4. RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

The statement of reconciliation between the net profit or loss and equity of the Group and the Parent Company, Garofalo Health Care S.p.A., is set out below.

Consolidated data	2017	
	Share. Equity	Net Result
	Eur '000	Eur '000
Financial Statements of the Parent Company Garofalo Health Care S.p.A.	67,875	10,008
Dividends from companies included in consolidation	-	(10,546)
Net contributions of the consolidated companies	27,367	12,755
Valuation at equity method	25	25
Other shareholders' equity movements	-	-
Consolidated financial statements, Group Share	95,266	12,241
Minority interest results	68	68
Minority interest capital and reserves	6,544	-
Result/Consolidated shareholders' equity	101,878	12,309

Consolidated data	2018	
	Share. Equity	Net Result
	Eur '000	Eur '000
Financial Statements of the Parent Company Garofalo Health Care S.p.A.	143,026	4,993
Dividends from companies included in consolidation	-	(8,108)
Net contributions of the consolidated companies	35,631	16,510
Valuation at equity method	198	198
Other shareholders' equity movements	(6)	(10)
Consolidated financial statements, Group Share	178,849	13,583
Minority interest results	486	486
Minority interest capital and reserves	6,519	-
Result/Consolidated shareholders' equity	185,854	14,069

5. GROUP ACTIVITIES

The GHC Group operates in the hospital and local residential and outpatient care sectors, of which brief descriptions are provided below.

In particular, the hospital sector may be divided into three segments:

- acute care, which refers to health services provided on an inpatient basis to patients suffering from acute forms of illness. This segment encompasses a wide array of specializations for treating patients suffering from acute forms of illness, including: (i) heart surgery; (ii) cardiology (clinical and interventional); (iii) orthopaedics and orthopaedic surgery; (iv) diabetology; (v) urology; (vi) otorhinolaryngology; (vii) general surgery; (viii) vascular surgery; (ix) gynaecology; and (x) plastic surgery.
- post-acute care, which refers to a various kinds of care that are provided once the acute phase of an illness has ended and are divided into two models: (i) long-term care and (ii) rehabilitation. (i) Long-term care involves treating long-term residential patients suffering from disabling chronic conditions or patients who have reached the end of the acute phase of their recovery but whose ability to function has been compromised and who thus require an extension of their hospitalization in order to achieve a full recovery or stabilization of their condition; (ii) rehabilitation offers post-trauma care aimed at restoring compromised mental and physical function to normal condition. This service extends to a large number of specialties, including cardiological rehabilitation, neurological rehabilitation, neuromotor rehabilitation, nutritional rehabilitation and respiratory rehabilitation;
- outpatient services, which refer to a broad range of non-resident care, consultation and diagnostic services, including the following specialties: (i) Doppler echocardiogram; (ii) Holter test; (iii) Doppler vascular ultrasound; (iv) myocardial scintigraphy; (v) CAT scan; (vi) ultrasound; (vii) magnetic resonance; (viii) nuclear medicine; (ix) laboratory testing; and (x) occupational medicine.

The local residential and outpatient care sector may be broken down into two segments:

- recoveries in a residential scheme and treatment of specific pathologies including (i) severe disabilities, (ii) treatment for patients with LIS (Locked-in-Syndrome) or with amyotrophic lateral sclerosis in the terminal phase (Departments N.A.C. - High Chronic Neurological Complexity Nucleus), (iii) complex disabilities, mainly motor or clinical assistance and functional (Healthcare Assistance Continuity), (iv) patients with disability from severe cerebral acquired lesion (Departments "SVP" - Persistent Vegetative Coma States) and (v) psychiatric disorders and disorders related to the use of psychoactive substances;
- district outpatient services, which refer to a broad range of non-resident care, consultation and diagnostic services, including the following specialties: (i) Doppler echocardiogram; (ii) Holter test; (iii) Doppler vascular ultrasound; (iv) myocardial scintigraphy; (v) CAT scan; (vi) ultrasound; (vii) magnetic resonance; (viii) nuclear medicine; (ix) laboratory testing; and (x) occupational medicine.

The diagram set out below summarizes the main services offered by the GHC Group in the sectors and segments described above:

Sectors	HOSPITAL				DEPENDENCY CARE	
Sub-sectors	Acute Care Hospitalizations	Post Acute		Outpatient Services	Residential Hospitalizations	District Outpatient Services
Key services offered	<ul style="list-style-type: none"> • Wide range of specializations for acute patients care, including: <ul style="list-style-type: none"> - Cardiac Surgery - Cardiology - Orthopaedics - Diabetology - Urology - Otorhinolaryngology - General surgery - Vascular surgery - Gynaecology 	<ul style="list-style-type: none"> • Non-temporary hospitalizations for patients affected by: <ul style="list-style-type: none"> - Chronic debilitating pathologies - Subacute pathologies, after acute hospitalization which require therapy for a certain period in a protected environment, in order to reach the complete recovery or a stabilization of the clinical conditions 	<ul style="list-style-type: none"> • Rehabilitation treatments, including: <ul style="list-style-type: none"> - Cardiology - Neurological - Neuro-functional - Nutritional - Respiratory 	<ul style="list-style-type: none"> • Outpatient services, consultations and diagnostic services, including: <ul style="list-style-type: none"> - Doppler echocardiography - Holter test - Vascular EcoDoppler - Myocardial scintigraphy - CT scan - Ultrasound - MRI - Nuclear medicine - Analysis laboratory • Outpatient Dialysis 	<ul style="list-style-type: none"> • Elderly care and treatment of specific pathologies, including: <ul style="list-style-type: none"> - Severe disabilities - Patients with LIS (Locked-in-Syndrome) or with Amyotrophic Lateral Sclerosis in terminal phase - Complex disabilities - Patients with disabilities due to severe cerebral lesions⁽¹⁾ - Psychiatric and behavioural disorders related to the consumption of psychoactive substances 	<ul style="list-style-type: none"> • Outpatient services, consultations and diagnostic services offered by non-hospital facilities, including: <ul style="list-style-type: none"> - Doppler echocardiography - Holter test - Vascular Ecodoppler - Myocardial scintigraphy - CT scan - Ultrasound - MRI - Nuclear medicine - Analysis laboratory - Occupational Medicine
	(1) Activity included in the hospital sector for Tuscany.					

The GHC Group provides the above services on both a publicly and privately funded basis.

Brief description of the companies of the GHC Group

The following is a brief description of the companies of the GHC Group, organized by business sector:

Hospital Sector

Hesperia Hospital (Modena – Emilia-Romagna Region)

This private hospital, accredited by Italy’s NHS, focuses on offering various specialties within highly specialized wards, in addition to a thoracic and cardiovascular centre providing specialist care and heart surgery procedures of national and international renown, supported by a hemodynamics laboratory and a coronary care unit, which form the backbone of its innovative development strategy.

The hospital is also known throughout Italy for its urology ward as well as its teaching facilities for training specialists in the treatment of prostatic hypertrophy.

The Hesperia Scientific Committee, which includes important members of the scientific community, was formed in 2001 with the goal of, inter alia: assessing and monitoring scientific projects, proposing the development of new clinical programs and evaluating the scientific merit of new technologies and their impact on improving procedures. In 2016 and 2017 various research projects were launched, including participation in the European research and innovation project Horizon 2020, which involves access to total funds of Euro 80 billion to be spread over the years 2014-2020.

At December 31, 2018 the facility had a capacity of 125 beds, broken down into ordinary inpatient care (100 beds) and critical care (25 beds), including intensive care and semi-intensive care, as well as the Coronary Intensive Care Unit.

Villa Berica (Vicenza – Veneto Region)

This hospital, accredited by Italy’s NHS, offers multiple specialties, with a focus on general surgery and internal medicine, including diagnosis and treatment involving numerous surgical, medical and rehabilitation procedures

offered on both an ordinary residential and an outpatient basis. The facility is divided into two departments: (i) a medicine and rehabilitation department that treats internal conditions, and in particular metabolic, bone and joint and vascular ailments, and (ii) a surgery department, which offers specialist general surgery, bariatric surgery, gynaecology, urology, otorhinolaryngology, orthopaedics and plastic surgery care.

Villa Berica's department of medicine is renowned for its diabetology ward, with a particular focus on preventing and treating the complications of diabetes affecting the legs and feet (diabetic foot), and has been renowned for its AMIS (Anterior Minimally Invasive Surgery) centre for hip replacement surgery since March 2018.

It is also a major regional centre for the treatment of osteoporosis and metabolic bone conditions, as well as a primary educational facility for the Italian Surgical Society (S.I.C.) for advanced laparoscopic surgery and the Italian Society of Hernia and Abdominal Wall Surgery (I.S.H.A.W.S.). Villa Berica also offers a physical therapy and rehabilitation for inpatients undergoing prosthetic surgery and suffering from sequela of conditions affecting the central nervous system, in addition to treating long-term residential patients and ensuring continuity of care after release from the facility.

At December 31, 2018 the facility had a capacity of 108 beds.

Rugani Hospital (Colombaio district, Province of Siena – Region of Tuscany)

An accredited hospital offering a range of specialties, including orthopaedics, urology, ophthalmology, general surgery, otorhinolaryngology, motor rehabilitation and diagnostic imaging, on both a residential and outpatient basis. In particular, the hospital specializes in orthopaedic surgery involving custom prosthesis implantation systems guided by CT scan and in excimer laser surgery for the treatment of myopia, hyperopia, astigmatism and cataracts.

Diagnostic endoscopy service has been provided under accreditation from Italy's NHS since February 2018. In July 2017 the facility opened two new wings added onto the central building, increasing the number of available beds from 40 to 80 and expanding its role to that of a major hospital capable of drawing patients from throughout Italy, and above all from other regions of the country.

At December 31, 2018 the facility had 80 beds.

L'Eremo di Miazzina (Cambiasca, province of Verbano, Cusio, Ossola – Piedmont Region)

L'Eremo di Miazzina is a care facility accredited by Italy's NHS that provides hospital services, offering post-acute hospital care for the full range of pathologies commonly experienced by the elderly and the sequelae of oncological and chronic degenerative pathologies, in addition to operating as a local residential and outpatient care facility (as discussed in the specific paragraph below).

L'Eremo di Miazzina, which is situated at an elevation of 650 meters above sea level in an area with particular geographic and climatic characteristics favourable to the treatment and rehabilitation services provided at the facility, had 257 hospital beds at December 31, 2018.

In 2013 a construction project was completed, adding an additional building of approximately 5,000 square meters, Istituto Raffaele Garofalo, erected on land previously purchased in the Municipality of Gravellona Toce, within the Verbano-Cusio-Ossola province of the Piedmont region.

Istituto Raffaele Garofalo is an accredited residential care facility that at December 31, 2018 had a capacity of 52 beds in the post-trauma and post-operative specialties (post-acute care), for recovery and intensive functional re-education of a neurological, muscular, respiratory, cardiac and oncological variety. Accredited outpatient services are provided (pulmonology, testing laboratory, gym and pool physical therapy, diagnostic imaging, ophthalmology and cardiology), alongside complex outpatient eye surgery on a private basis.

The facility treats patients at various stages of their clinical journeys (in the hospital, in local facilities or in their homes) according to a multi-specialty treatment approach made possible by the presence of highly specialized personnel. The facility also has a specialist services centre that provides specialist diagnostic and treatment services, both under accreditation and privately, two large gyms with cutting-edge equipment and a computerized therapy pool with a vascular program, externally monitored via underwater video cameras.

On July 11, 2018 L'Eremo di Miazzina S.p.A. was awarded ownership, in an execution procedure, of a property adjacent to Istituto Raffaele Garofalo previously used as a shopping centre, with floor area of approximately 4,000 square meters, located in Gravellona Toce (VB), intended to house the hospital rehabilitation service currently provided at L'Eremo di Miazzina. This relocation will allow Istituto Raffaele Garofalo to expand and diversify its accredited

specialist outpatient services.

Villa Garda (Garda, province of Verona – Veneto Region)

An accredited healthcare facility specialized in cardiac rehabilitation and nutritional rehabilitation. In particular, Villa Garda is one of the largest cardiac rehabilitation facilities in Italy by number of beds, making it a major centre for patients recovering from heart surgery and heart attacks, treated according to a multidisciplinary approach that includes medical, psychological and educational components. In the mid-80s, Villa Garda's Functional Nutritional Rehabilitation Unit was the first in Italy to implement intensive hospital rehabilitation treatment for patients suffering from nutritional and eating disorders. The treatment, developed in collaboration with Oxford University's CREDO centre, consists of trans-diagnostic cognitive behavioural therapy and is designed to treat adults and adolescents in all diagnostic categories suffering from nutritional and eating disorders. The cognitive behavioural therapy for eating disorders (CBT-ED) developed at the Villa Garda care facility for adolescents suffering from anorexia nervosa, bulimia nervosa and other eating disorders, has been assessed in a controlled study and three cohort studies and was recommended by the recent guidelines issued by the National Institute for Health and Care Excellence (NICE) in 2017. Expertscape named two professionals from the Villa Garda facility experts in treating eating disorders in Italy.

In recent years, the results achieved through intensive hospital rehabilitation for patients suffering from nutrition and eating disorders have drawn the attention of numerous specialists, and clinical services similar to those offered at Villa Garda have been implemented in Norway, Sweden, Holland, Denmark, the USA and Australia, under the supervision of the Villa Garda group. Universities in the above countries periodically send delegations of professionals to Villa Garda to learn the protocols and scientific treatments adopted at the facility and replicate them in their home countries. For this purpose, the physician leading the Villa Garda medical team makes onsite visits to the clinical services offered by the above universities to verify that the methods taught are being properly applied, particularly in the case of cognitive behavioural therapy for eating disorders (CBT-ED), as well as to provide assistance and support to the physicians on staff at the facilities.

In June 2012 Villa Garda's Nutritional Rehabilitation Unit received EASO-COMS accreditation from the European Association for the Study of Obesity (EASO), and in March 2015 it was selected for inclusion among the accredited SIOI centres for the treatment of obesity.

At December 31, 2018 the facility had a capacity of 109 beds.

Casa di Cura Prof. Nobili S.p.A. (Castiglione dei Pepoli, province of Bologna – Emilia-Romagna Region)

The Casa di Cura Prof. Nobili is a multi-specialty facility accredited with the National Health Service, undertaking Regional hospital functions as a point of initial contact and with an ambulance-supported emergency service. The facility covers: (i) orthopaedics and traumatology; (ii) general surgery; (iii) general medicine and long-term care. It is also a multi-disciplinary clinic and a dialysis centre.

In 1981 the Casa di Cura Prof. Nobili became the first facility in Italy to use a laminar wall filter for forced circulation. It is also equipped with an outpatient diagnostics area offering high-performance equipment and two cutting-edge magnetic resonance imaging machines. The facility also features an operating unit offering two operating theatres equipped with the latest technologies. Its position a few kilometres from Bologna, combined with the presence of the Hesperia Hotel, reinforces the GHC Group's position in the Emilia-Romagna region.

At December 31, 2018 the facility had 86 beds.

The local residential and outpatient care sector

Fides Medica Group (Genoa - Liguria Region)

The Fides Medica Group, consisting of eleven local care facilities in the city and province of Genoa accredited by Italy's NHS, provides treatment and rehabilitation for elderly and other patients affected by a wide range of mental illnesses, including eating disorders and acquired disabilities. Its facilities offer a full range of rehabilitation services, long-term residential care and reintegration into society. In particular, they offer: (i) a program for acquired brain injuries; (ii) residential care for rehabilitation or maintenance; (iii) treatment for individuals suffering from behavioural eating disorders, personality disorders or mood disorders; and (iv) long-term hospitalization of elderly patients.

The Fides Medica Group consists of the following facilities: Rehabilitation Centre – Genova Quinto; Le Clarisse Residential Care Facility – Genova San Martino; Santa Marta Residential Care Facility – Genova Quarto; Santa Rosa Residential Care Facility – Manesseno S. Olcese (GE); REMS Villa Caterina – Genova Prà; Villa Santa Maria Psychiatric Rehabilitation Care Facility – Campomorone (GE); Villa Del Principe Psychiatric Rehabilitation Care Facility – Genoa (specializing in eating disorders and the SEPA rehabilitation service for psychiatric patients, which provides post-acute care for psychiatric disorders, the only facility of its kind in the entire city of Genoa, accredited by the Regional Health System); Palazzo Fieschi Psychiatric Rehabilitation Care Facility – Savignone (GE); Skipper Residential Psychiatric Care Facility – Masone (GE); Le Note di Villa S. Maria Psychiatric Patient Residential Community – Ceranesi (GE); Il Bozzello 1 and Il Bozzello 2 Psychiatric Patient Residential Community – Masone (GE).

It should also be noted that due to its geographical position the Fides Medica Group operates in a particularly favorable environment, given that Liguria is the region of Italy with the highest percentage of residents over 65 years of age.

Overall the Fides Medica Group had 353 beds at December 31, 2018, in addition to the 101 beds offered by the facilities owned by Il Fiocco.

L'Eremo di Miazzina (Cambiasca, province of Verbano-Cusio-Ossola – Piedmont Region)

As mentioned above, L'Eremo di Miazzina provides both hospital and local outpatient and residential care services. In local outpatient and residential care, the facility provides recovery and extensive and long-term functional re-education services for patients suffering from chronic degenerative disabilities, such as: (i) long-term healthcare support; (ii) persistent vegetative states; and (iii) highly complex chronic neurological conditions.

It also offers a full range of healthcare services for severe disabilities, vegetative states and highly complex chronic neurological conditions, in addition to providing long-term healthcare support and residential care services.

CMSR Veneto Medica (Altavilla Vicentina, province of Vicenza – Veneto region)

CMSR Veneto Medica is a Medical Instrumentation and Rehabilitation Center dedicated to diagnostic imaging using next-generation technology, accredited by Italy's National Health System. CMSR Veneto Medica provides local cardiac patients with medical examinations and non-invasive cardiac diagnostic tests, including cardiac imaging using CT and magnetic resonance. There is also a clinical pathology laboratory and sports medicine service, both offered on a private basis, a traditional radiology department, a nuclear medicine department and an ultrasound department.

CMSR Veneto Medica enjoys longstanding collaboration with the Department of Cardiovascular Science of the University of Padua and offers Ongoing Medical Education programs. It is a member of the Italian National Hypertrophic Cardiomyopathy Register. It also supports and promotes research projects relating to aortic stenosis, bicuspid aortic valve (BAV) and the identification of normalcy criteria for the ascending aorta.

Sanimedica (Vicenza and Altavilla Vicentina, province of Vicenza – Veneto region)

Sanimedica, which serves patients on a private basis only, and does not provide services covered by Italy's NHS, has two directly owned facilities: the Fisiomed Medical Center and Sanimedica.

The Fisiomed Medical Center, located in Vicenza, offers the main specialist services and rehabilitative care in the fields of both orthopaedics and neurology. In orthopaedic care, the centre aims for integrated patient management through

its internal rehabilitation department, with a particular focus on rehabilitation following meniscectomy surgery or reconstruction of the anterior cruciate ligament. The Fisiomed Medical Center also offers sports medicine service.

Sanimedica offers employers occupational medicine service designed to satisfy with the legal requirements. Since 1994 it has served a large number of companies operating in all sectors of industry and government agencies through its team consisting solely of physicians specialized in occupational medicine, in collaboration with qualified safety consultancy firms. In 1998 Sanimedica began to offer outpatient surgery service, primarily in the fields of plastic surgery, orthopaedic surgery, vascular surgery and abdominal surgery, in addition to specialist examinations and diagnostic tests in the following specialty areas: (i) ophthalmology, (ii) allergology, (iii) neurology, (iv), gynaecology, (v) phoniatics, (vi) psychology and psychiatry and (vii) dermatology.

Sanimedica and the Fisiomed Medical Center are accredited to provide medical services to military personnel stationed at the U.S. Camp Ederle in Vicenza and their families.

Villa Von Siebenthal (Genzano, province of Roma – Lazio region)

The Villa Von Siebenthal care facility is one of the main neuropsychiatric facilities in the Lazio region and has been accredited by Italy's NHS. It treats patients referred by various local mental health centres, offering top-quality care in the following areas: intensive onsite psychiatric treatment; 24-hour rehabilitative residential care; rehabilitative residential care for adults receiving extended care; rehabilitative residential care for adolescents; intensive care; and rehabilitative residential care for adolescents receiving extended care.

In 2015 it became the first residential psychiatric facility to be accredited by the Lazio region for the extended psychiatric treatment of adolescents. On December 31, 2018 it then became the only facility in Italy to offer intensive care for adolescents. In particular, extended care differs from intensive care in terms of the length of hospitalization (up to two years for the former, compared with a few months for the latter) and involves a psychiatric rehabilitation process performed by child neuropsychiatrists, educators, psychologists and nurses.

The facility accepts adult and juvenile patients voluntarily admitted on an ordinary basis for mental illnesses, in both the acute and post-acute phases, in addition to patients suffering from substance dependency, placed in its rehabilitative treatment community.

At December 31, 2018 the facility had a capacity of 89 beds, of which 20 were reserved for adolescents.

Business model implemented by the GHC Group

The business model adopted by the Group involves centralizing the decision-making process regarding, inter alia, the pursuit of strategic objectives with GHC, which exercises management and coordination over the subsidiaries pursuant to Art. 2497 of the Italian Civil Code. In particular, GHC:

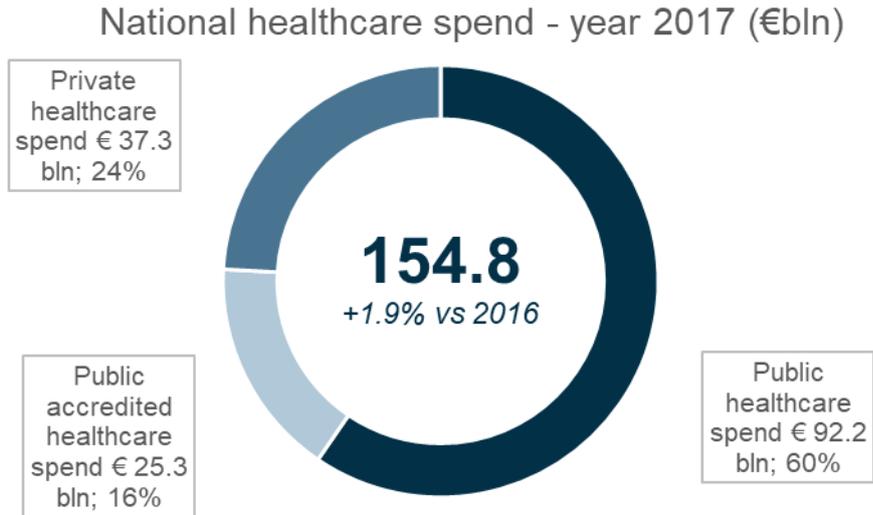
- identifies the strategic guidelines of development to be pursued;
- sets and monitors goals for the various healthcare facilities;
- identifies the potential healthcare facilities to be acquired, managing M&A activities and the post-acquisition integration plan to achieve the potential synergies;
- manages certain specific activities for the Group on a central basis, so as to achieve possible synergies in terms of the efficacy and efficiency of the business rapidly.

The centralization with GHC of certain responsibilities increases the efficacy of synergistic management of specific activities including, but not limited to, purchases, financial and treasury management and IT systems, while also making it possible to support the facilities with their operational activities.

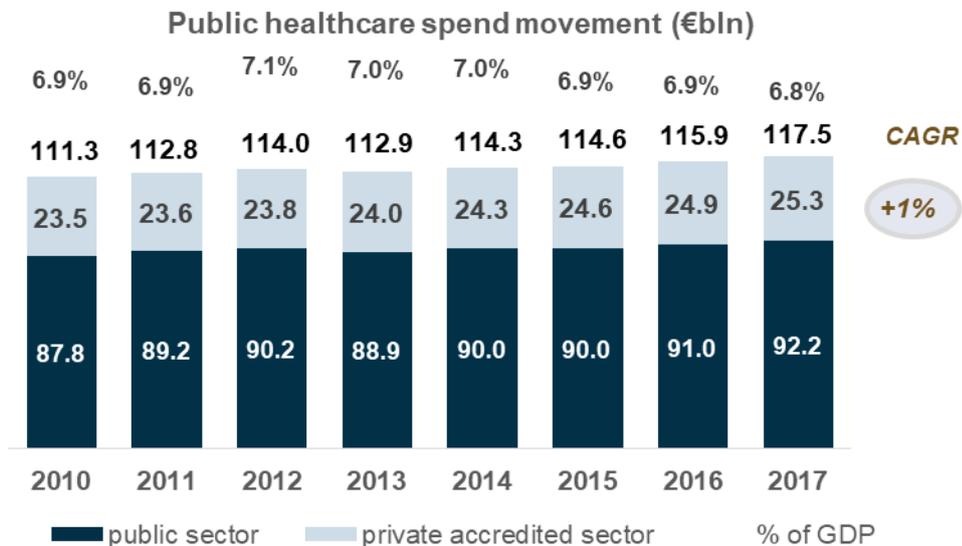
6. SECTOR PERFORMANCE

According to the 2018 OASI Report⁸, total Italian healthcare spending was estimated to amount to Euro 154.8 billion in 2017, up by 1.9% on 2016, equivalent to 9.0% of national GDP. This figure includes both public healthcare spending of Euro 117.5 billion (76% of the total), equivalent to 6.8% of GDP, and fully private healthcare spending, amounting to Euro 37.3 billion (24% of the total), equivalent to 2.2% of GDP.

Public healthcare spending in turn consists of approximately Euro 92 billion of direct public healthcare spending and approximately Euro 25 billion of accredited public healthcare spending, referring to private operators that receive public resources to fund their private institutional services.

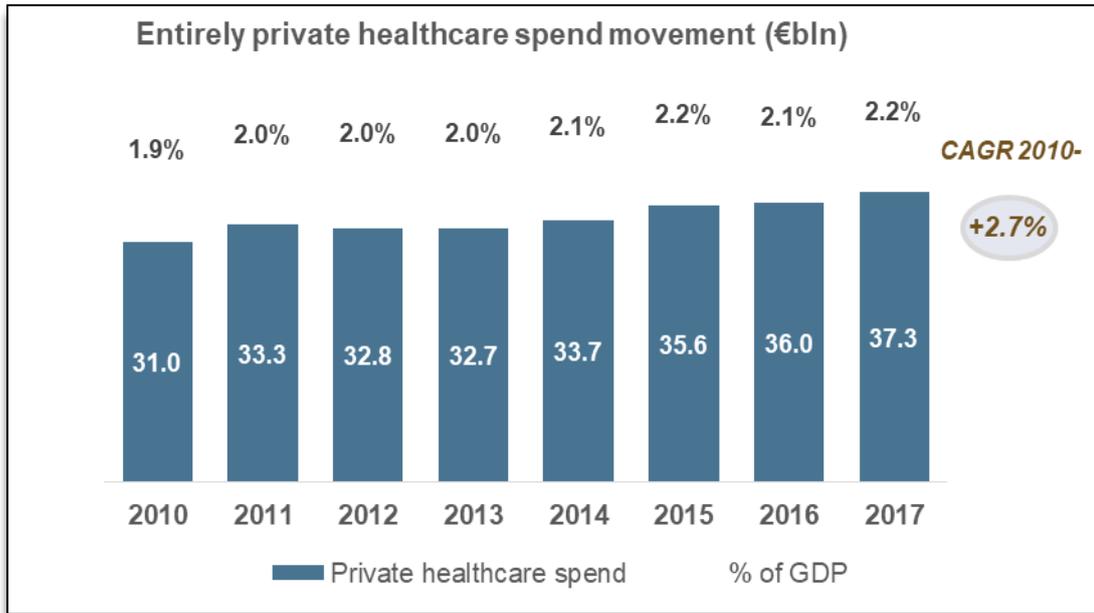


Public spending on the accredited sector was estimated at Euro 25.3 billion in 2017, up by 2.4% on 2016. It grew at a CAGR of 1.0% from 2010 to 2017.



Fully private spending was estimated at Euro 37.3 billion in 2017, up by 3.7% on 2016.

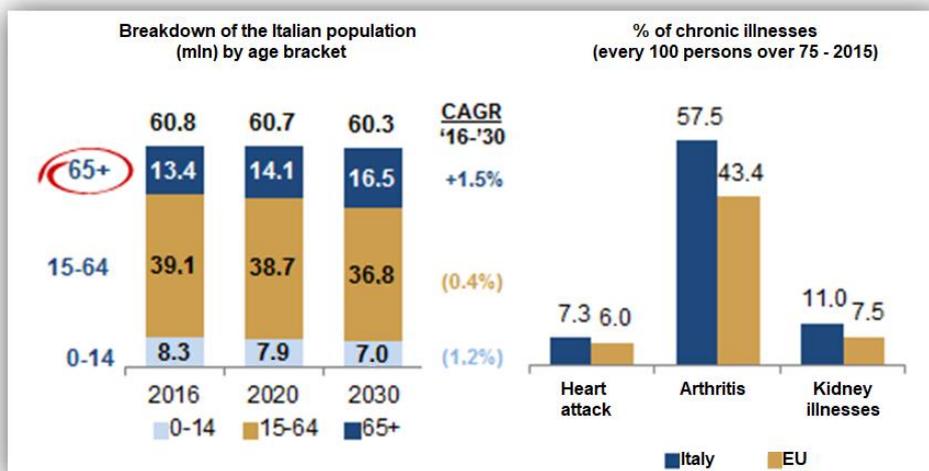
⁽⁸⁾ 2018 OASI Report prepared by CERGAS-SDA.



Turning to an historical analysis of the reference market, and in particular of the segments in which the Group operates, from 2010 to 2017 accredited healthcare spending was extremely stable, showing a non-cyclical CAGR of 1%, alongside the constant growth seen in fully private services, which presented a CAGR of 2.7% in the period of analysis from 2010 to 2017. The same also applies to the value as a percentage of GDP, inasmuch as fully private healthcare spending rose from 1.9% of GDP in 2010 to 2.2% in 2017.

If the public healthcare spending figures presented above are compared with those of other countries, Italian spending was lower. Italy ranks below Germany (where public spending amounts to 9.5% of GDP), France (8.7%), Belgium (8.0%) and the United Kingdom (7.8%), as well as the European average of 7.4% of GDP.

The lower level of public healthcare spending in Italy than in the other European countries must also be viewed in conjunction with the considerable ageing of its population. As may be seen from the following chart, the percentage of the Italian population over 65 years of age is constantly increasing, and is expected to come to approximately 27% of the total in 2030, compared with 22% in 2016. At the same time, the Italian population over 75 suffers from a higher incidence of chronic disease than the European average⁽⁹⁾.

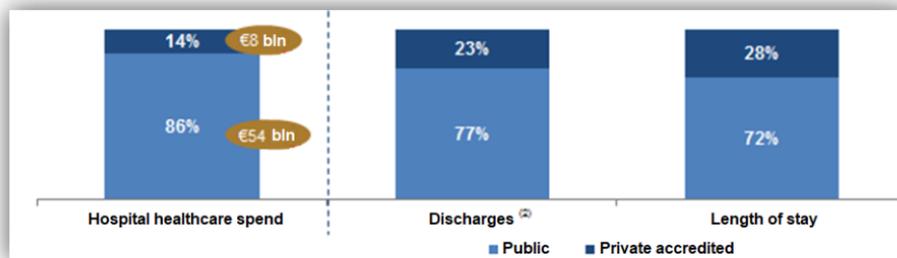


⁽⁹⁾ Source: 2017 OASI Report. 2017 ISTAT Report, "The elderly: their health conditions in Italy and the European Union".

These aspects of healthcare spending below the European average, a trend towards an ageing population and a correlated increase in the incidence of chronic disease contributed to a trend towards considerable growth of the private healthcare system.

The accredited private hospital system is highly efficient where compared to the public sector. The accredited private healthcare system's greater efficiency than its public counterpart may be appreciated if a series of specific indicators are considered.

As shown by the following chart, which refers only to acute patients within Italy, it is noteworthy that while accredited private hospitals receive 14% of total resources, healthy patients discharged from accredited private hospitals in 2016 accounted for 23% of the total and the number of days of hospitalization in accredited private hospitals in 2016 28% of the total. This demonstrates that accredited private hospitals are capable of using the resources available to them to hospitalize more patients than their public counterparts ⁽¹⁰⁾.



The high quality of the accredited private system when compared to the public system may also be seen in terms of the complexity of the pathologies treated. The main relevant indicator is known as “average weight”. In 2015 the Italian national average for this indicator for accredited private hospital facilities was 1.32, compared with 1.21 for public hospitals, confirming the high level of specialization and high quality of services offered in accredited private facilities.



(*) The complexity indicator is a concise measure of the complexity of the pathologies treated. It is calculated as the average of the weights assigned to each group of patients (based on DRGs) out of the total number of patients discharged.

The aspects of efficiency and quality, combined with a trend towards stable public spending and an ageing population, further confirm the key role played by private operators and indicate that there is room for further significant growth in this area.

Italy's National Health System consists of a large number of facilities, generally of a smaller scale. According to the most recent figures published by the Italy's Ministry of Health, there were 26,765 healthcare facilities in Italy at the end of 2013. Of these, 12,032 are public facilities (45%), whereas 14,733 are accredited private facilities (55%).

⁽¹⁰⁾ Source: 2016 discharge form data, 2017 AIOP Report, 2017 OASI Report and Italian Ministry of Health.

Healthcare facilities operating in the accredited private sector are more fragmented than those operating in the public sector, which consists solely of medium and large hospitals.

The most recent available data for the acute-care segment of the accredited private hospital sector indicates that from 2010 to 2016 the number of facilities operating in the market decreased from 614 to 575 due to the complexity of the requirements imposed by Italy's NHS, which entailed an increase in costs and a decrease in revenues for smaller operators.

Ministerial Decree No. 70 of April 2, 2015, "Regulations on the definition of qualitative, structural, technological and quantitative for hospital care" introduced a minimum threshold of 60 beds for eligibility for accreditation. Accordingly, facilities with fewer than 60 beds were forced to convert or consolidate.

Over the past five years there has been an increase in the accredited private hospital sector in groups with over 500 beds, which added approximately 2,000 additional beds and 21 facilities, rising from 35% to 38% of total beds in the accredited private sector. However, there is still considerable room for industrial consolidation processes: the average size of accredited facilities is 116 beds⁽¹¹⁾.

7. INVESTMENTS

During the year the Group undertook investments in property, plant and equipment and intangible assets of a recurring nature aimed at supporting the production capacity of its healthcare facilities and implementing technological and functional upgrades to medical devices and equipment, viewed as essential conditions to maintaining high standards of quality of the services offered to patients.

In 2018 the Group also undertook investments in non-current assets of a non-recurring nature within the framework of development and expansion projects aimed at increasing production capacity and diversifying the type of services offered. Equity investments were also undertaken in accordance with the inorganic growth strategy.

Among the recurring investments undertaken, attention should be drawn to the purchase by the subsidiary Hesperia Hospital S.p.A. of the Da Vinci robot, a next-generation medical device that is among the most advanced robotic technologies for minimally invasive surgery currently available on the market.

Investments of a non-recurring nature primarily relate to the following development and expansion projects:

Expansion of Istituto Raffaele Garofalo

On July 11, 2018 Eremo di Miazzina S.p.A., the company that owns the L'Eremo di Miazzina facility and Istituto Raffaele Garofalo, both located in the region of Piedmont, was awarded, in an execution procedure, title to a property adjacent to Istituto Raffaele Garofalo, located in Gravelona Toce (VB), previously used as a shopping centre but to be renovated appropriately and used to expand hospital rehabilitation service, in addition to expanding and diversifying accredited specialist inpatient services, currently offered at Istituto Raffaele Garofalo.

This will not only permit Istituto Raffaele Garofalo to meet the legal minimum of 60 beds required to maintain independent accreditation with the Regional Health Service, while taking advantage of its location in an area without healthcare services, but will also allow L'Eremo di Miazzina di focus on offering local residential and outpatient service and long-term hospital care by exploiting its location in an area with peculiar climatic and therapeutic conditions.

On September 5, 2018 the Court of Verbania rendered an order transferring the title to the above property following the payment of the balance of the price by Eremo di Miazzina S.p.A. for a total of Euro 3.7 million.

In December 2018 Eremo di Miazzina S.p.A. entered into full possession of the new property and commenced the process of preparing for renovations.

The Istituto Raffaele Garofalo Gravelona Toce expansion project is set to be completed by 2020 and will become operational in early 2021.

The above expansion project involves total investments of approximately Euro 8.0 million, primarily relating to the

⁽¹¹⁾ Source: 2018 OASI Report - Monitoring of Italian Companies and the Italian Healthcare System.

purchase and renovation of the property, i.e. the planning and execution of the work, furniture and fittings and the fitness for use and accreditation procedure.

Approximately Euro 3.7 million of the total investment indicated above had been incurred at December 31, 2018.

The *Santa Maria ("ex-School") Project*

By preliminary deed dated December 6, 2017, Ro. E. Mar S.r.l. had committed to acquire title to a building located in Genoa that had been used as a school in order to relocate to this property, following appropriate renovation, the activities carried out at the Santa Marta facility in Genoa and, once the transfer to the new facility is complete, to modernize the existing facility to offer care on a private basis only, i.e. with costs billed to patients. The new facility will house 70 beds, while the existing structure will have 16 less beds overall in order to improve the overall efficiency of the facilities.

The purchase of the building to be used as a new residential care facility was closed in December 2018, by deed of conveyance dated December 24, 2018.

The Santa Marta Project is expected to be completed and become operative by 2020.

The above project involves total investments of approximately Euro 3.8 million, primarily relating to the purchase and renovation of the property, i.e. the planning and execution of the work, furniture and fittings and the fitness for use and accreditation procedure.

Approximately Euro 1.7 million of the total investment indicated above had been incurred at December 31, 2018.

The equity investments relate to the following transactions:

Acquisition of additional interest in Casa di Cura Prof. Nobili S.p.A.

On July 27, 2018 Garofalo Health Care S.p.A purchased a 1.5% interest in Casa di Cura Prof. Nobili S.p.A. for consideration of Euro 60,000 from an individual unrelated to the Group. As a result of this purchase, on December 31, 2018 Garofalo Health Care S.p.A held a 52.55% equity interest in Casa di Cura Prof. Nobili S.p.A. (corresponding to 54.46% of voting rights, owing to the 3.5% treasury shares held).

Preliminary purchase and sale agreement signed for a 100% interest in Poliambulatorio Dalla Rosa Prati S.r.l.

On December 20, 2018, Garofalo Health Care S.p.A. announced the signing of a preliminary contract for the acquisition of 100% of the company Poliambulatorio Dalla Rosa Prati S.r.l., a Diagnostic Centre headquartered in Parma operating both under the Emilia-Romagna Region accredited and private healthcare systems. The preliminary contract stipulates the acquisition by Garofalo Health Care of 100% of the company Poliambulatorio Dalla Rosa Prati S.r.l., which in turn owns 100% of the company Dalla Rosa Prati Grossi S.r.l., owner of the building in which the Diagnostic Centre operates and at which the company is headquartered. The Poliambulatorio Dalla Rosa Prati welcomes approx. 600 patients per day, providing specialist outpatient services, psychiatry and physiotherapy, outpatient surgical services and diagnostic imaging and nuclear medicine, benefitting from cutting-edge technology and highly-regarded sector specialists. The Clinic is also equipped with laboratory analysis services and in 2018 introduced dentistry services.

8. OUTLOOK

For 2019, the Group shall continue to roll out its strategy focusing on the following objectives:

- Continue to deliver high quality standards, representing the benchmark for covered patients and the private-private sector (out of pocket), thanks to a "patient centred" organisational model supported by top level medical staff and investment in cutting-edge infrastructure and technologies;
- Achieve the full benefits from the synergies between the Group clinics;
- Leverage the current Group "platform" to acquire new clinics through the use of the funding raised on the Group's listing.

9. PRINCIPAL RISKS AND UNCERTAINTIES TO WHICH GAROFALO HEALTH CARE S.P.A. AND THE GROUP ARE EXPOSED

Risks associated with the liability of the Group's healthcare facilities for injuries caused to patients by physicians in the practice of their profession at the healthcare facilities

The Group is exposed to the risks associated with civil liability under the law for injuries caused to patients hospitalized or receiving care in its healthcare facilities as a result of negligence or wilful misconduct in the provision of hospital and/or local residential and outpatient care by physicians and other healthcare professionals, or as a result of incomplete insurance cover for medical liability claims.

Law No. 24 of March 8, 2017 (the "Gelli-Bianco Law" or "Law No. 24/2017") introduced a new medical liability system, extending to both civil liability, in the twofold form of the contractual liability of the health facilities and the extra-contractual liability of healthcare professionals, and the criminal liability ascribed to such professionals for injuries sustained by patients as a result of acts or omissions in the course of practicing their professions. The GHC Group adopts a composite coverage policy for the above risks, within which only certain facilities (namely Villa Von Siebenthal, which treats the mentally ill, Casa di Cura Prof. Nobili, CMSR Altavilla Vicentina and Sanimedica) have contracted insurance policies, while others operate under the "self-insurance" scheme, provisioning appropriately for loss events that have occurred the risk of an unfavourable outcome of which is deemed at least likely on the basis of the characteristics of the specific loss events, and the resulting provisions are then revised with half-yearly frequency according to claims management performance and/or legal action taken by the injured parties.

Risks associated with the protection of personal and sensitive data and the implementation of the new Reg. No. 679/2016

In conducting its entrepreneurial activity, the Group engages in substantial, continuous processing of personal data, including sensitive personal data, and particularly data regarding patients and medical and paramedical personnel. Accordingly, it is required to comply with privacy legislation in the European Union (Regulation (EU) No 679/2016, "GDPR") and Italy (Legs. Decree No. 196/2003, the "Privacy Code"), as well as the orders issued by Italy's Personal Data Protection Authority. Each Group company has implemented specific documentation and internal procedures aimed at ensuring that its personal data processing operations are compliant with GDPR and has appointed a data protection officer who constantly supervises compliance with GDPR and other European and Italian personal data protection legislation and the relevant company's personal data protection policies, including the assignment of responsibility, awareness-raising and training of the personnel involved in processing and the related oversight activities.

Risks associated with environmental issues and health and safety legislation

The Group's production activities are subject to environmental protection and occupational health and safety legislation. Workplace safety, health and hygiene are ensured through constant updates and performance of the mandatory legal inspections, in addition to the adoption of specific policies, management systems and procedures. The Group also relies on specific workplace health and safety consultants.

With regard to the risks associated with waste disposal, and in particular the disposal of hazardous materials, Group companies take the necessary measures to ensure that they comply with laws and regulations applicable to the health sector.

Risks associated with the administrative liability of companies for criminal offences pursuant to Legs. Decree No. 231/2001

The Group is exposed to the risk of incurring penalties in the event that its organization, management and control model pursuant to Legislative Decree No. 231/2001 on "the administrative responsibility of legal persons and of companies and associations, including those without legal personality" is found to be inadequate.

On August 8, 2018 the Parent Company adopted the organization and management model provided for in Legislative Decree No. 231/2001 in order to create a set of rules aimed at preventing unlawful conduct deemed potentially relevant to the application of this legislation, in addition to adopting a Group Ethics Code and establishing a Supervisory Board. All the other Group companies have also implemented their own Legislative Decree No. 231 models, consistent with the model approved by the Parent Company, and adopted the Group Ethics Code.

The Company's Supervisory Board has been placed in charge of the Group Ethics Code for all GHC Group companies.

Credit Risk

Credit risk is the risk that a counterparty does not fulfil its obligations relating to a financial instrument or a commercial contract, resulting therefore in a financial loss. The maximum exposure to the credit risk for the Group at December 31, 2018 and December 31, 2017 is represented by the book value of the assets recorded in the accounts under trade receivables. The receivables claimed by the company refer almost entirely to public healthcare facilities (hospital authorities and/or health authorities) for which it is not considered necessary to recognize a particular risk of insolvency, except in connection with spending review and limit requests. Commercial credit risk is managed by each Company in accordance with the Group's policy.

The risk of default is observed locally by the head offices of the subsidiaries, which monitor the collection of trade receivables. The CFO Area Administration monitors the overall risk level and constantly verifies the overall credit exposure. The risk level associated with this item is low, since the Group's receivables are mainly claimed from the Regional Health System.

At the operational level, this risk is managed as follows:

- assessment of clients' credit standing, taking account of their creditworthiness;
- monitoring of the relevant expected collection flows;
- appropriate payment reminders;
- legal recovery actions, where appropriate.

Liquidity risk

Liquidity risk is associated with the ability to meet commitments arising from financial liabilities. Prudent management of the liquidity risk from normal operations implies the holding of an adequate level of liquidity and an adequate funding from credit lines.

The Group believes that the risk of non-payment for the services rendered by the individual health facilities by the Regional Health System, together with the related impact on liquidity, is moderate. The Group's facilities are primarily located in regions with a balanced healthcare spending budget. This reduces, but does not eliminate, the risk that the Regional Health Systems within whose territory the facilities concerned operate may delay the payment of services rendered to patients. At December 31, 2018, the GHC Group's average collection times from the Regional Health System were approximately 100 days, compared with an industry national average of 110 days⁽¹²⁾.

Liquidity risk is managed by the individual companies and is monitored centrally by the Group: the CFO Area Administration periodically monitors the Group financial position by preparing appropriate reports on projected and actual cash inflows and outflows. In this manner, the Group aims to ensure adequate coverage of its financial needs, closely monitoring loans, open credit lines and relative utilisations in order to ensure optimum management of the resources and any temporary excess liquidity.

The Group objective is to ensure a financial structure which, in line with business objectives, guarantees an adequate level of liquidity, minimising the relative opportunity cost by maintaining equilibrium in terms of duration and type of debt.

Within the framework of this type of risk, in planning its financial structure the Group tends to finance its investments using medium/long term debt, while meeting its current obligations using the cash flow provided by its operations, financed using short-term lines of credit.

The management of financial risks is undertaken according to the guidelines drawn up by the directors of the subsidiaries. The aim is to ensure that the structure of liabilities is always balanced with the composition of assets, in order to ensure a high margin of solvency.

The Group is simultaneously exposed to market risk (interest rate risk), liquidity risk and credit risk.

The Group also seeks to maintain an optimal capital structure so as to reduce its borrowing costs. The Group monitors its capital situation on the basis of the ratio of net financial position (NFP) to net capital employed (NCE). Net debt is calculated as total borrowings, including current- and non-current loans and the net exposure to banks. Net capital employed is calculated as the sum of investments and net working capital (excluding net equity and debt included in NFP).

⁽¹²⁾ Source: Assobiomedica Research Center, Receivables Monitoring Program.

Interest rate risk

The interest rate risk to which the Group is exposed arises not only from the short-term lines of credit extended to all companies, but also from the medium/long term loans contracted by certain companies such as Rugani Hospital S.r.l., Eremo di Miazzina S.p.A., CMSR Veneto Medica S.r.l., Villa Von Siebenthal S.r.l. and the Fides Group.

Loans (Euro thousands)	At December 31, 2018		
	Interest	Interest +1%	Interest -0.25%
Total	686	799	515

The objective of the management of interest rate risk is to limit and stabilize the interest paid, primarily on medium-term loans, so as to ensure that the underlying and the hedging instrument are closely correlated. Hedging activity is assessed and decided upon on a case-by-case basis. In view of the Group's limited use of medium-to-long-term debt and the modest potential impact of changes in the relevant interest rates, it does not have any outstanding interest rate hedging derivatives. Interest rates are managed by the Parent Company's treasury. Hedging activity is assessed and decided upon on a case-by-case basis.

10. OTHER INFORMATION

Pursuant to Art. 2364, paragraph 2, of the Italian Civil Code, and in accordance with the By-laws, the Directors have adopted the extended period of 180 days for the approval of the financial statements. The extension was motivated by the fact that on March 15, 2019, the subsidiary Villa Von Siebenthal S.r.l., a psychiatric residential clinic located in Genzano di Roma (RM), formally received a supplement to the agreement previously in effect with the Lazio Region, finalized on April 17, 2019.

In view of the size and significance of this event and in compliance with international accounting standards, the company therefore decided to defer the date for the Board meeting called to approve the statutory financial statements and the consolidated financial statements, in order to reflect in the accounts the impact of this contractual supplement on the results of the GHC Group at December 31, 2018.

Garofalo Health Care S.p.A. did not have any branch offices at December 31, 2018.

Incentive plans

On September 26, 2018 the Board of Directors approved a remuneration plan based on shares of the Company, i.e. a stock-grant plan designated "*GHC Group – 2019 - 2021 Stock-Grant Plan*" ("the Plan"), reserved for directors and managers of the Company and Group companies occupying managerial positions deemed significant within the Group and exerting a material impact on the creation of value for the Company and its shareholders. The Plan calls for the free assignment to the beneficiaries of the Plan of rights to receive a maximum of 2,775,000 shares free of charge in the years 2019 (1st Plan Cycle), 2020 (2nd Plan Cycle) and 2021 (3rd Plan Cycle). The free assignment and subsequent delivery of the shares will be conditional on the achievement of predetermined performance objectives for each of the three cycles into which the Plan is divided.

Treasury shares and shares of holding companies

Garofalo Health Care S.p.A. did not have any treasury shares at December 31, 2018. The subsidiary Casa di Cura Prof. Nobili S.p.A. holds 7,000 treasury shares, representing 3.5% of its share capital.

At December 31, 2018 neither Garofalo Health Care S.p.A. nor the Group held shares of the holding company, nor did they purchase or dispose of such shares during the year, directly or through fiduciary companies or nominees.

For information regarding the purchases of treasury shares of Garofalo Health Care S.p.A. undertaken in 2019, refer to the paragraph of this document entitled "Significant events after the year end".

The environment and personnel

The company and the Group operate in accordance with the principles of protecting worker health and safety and safeguarding the environment. In 2018 there were no events affecting workplace health and safety nor damages to the environment. For further information on and analysis regarding the subject, refer to the Consolidated non-financial report.

Corporate Governance

The Company has adopted the Self-Governance Code promoted by Borsa Italiana S.p.A. The corporate governance structure implemented by Garofalo Health Care S.p.A. has been designed in accordance with the recommendations set out in the corporate governance code of conduct promoted by Borsa Italiana S.p.A., i.e. the aforementioned Self-Governance Code.

In accordance with Article 123-bis of the CFA, the Company is required to prepare an annual corporate governance and ownership structure report containing a general outline of the corporate governance system adopted by the Group and Garofalo Health Care S.p.A. and information on the ownership structure, including adoption of the Self-Governance Code, the main governance practices applied and the features of the risk management and internal control system with regards to the financial reporting process.

The aforementioned report was approved by the Board of Directors on April 18, 2019.

The Company is organised according to the traditional administration and control model, which includes the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The Company's current By-laws were approved by the Shareholders' Meeting in extraordinary session on September 26, 2018 and entered into effect on November 9, 2018, the initial date of trading. The By-laws are the document that establishes the Company's essential characteristics and lays down the main rules for its organization and functioning, in addition to governing the composition, powers and relations of the Company's boards. The By-laws also contain a description of the rights held by the shareholders and the manner in which those rights are exercised.

The main governing body is the Board of Directors, which bears primary responsibility for setting and pursuing the strategic objectives of the Company and the Group of which it is a part.

On July 31, 2018, the Company's ordinary Shareholders' Meeting, after having set the number of members of the Board of Directors at five, appointed by the following directors, who will cease to hold office upon the approval of the financial statements for the year ending December 31, 2020: Alessandro Maria Rinaldi, Maria Laura Garofalo, Claudia Garofalo, Umberto Suriani and Patrizia Crudetti. The same Shareholders' Meeting also appointed Alessandro Maria Rinaldi Chairman of the Board of Directors.

On August 8, 2018, the Company's ordinary Shareholders' Meeting then resolved, with effect from the Initial Date of Trading (i.e., November 9, 2018), to set the number of members of the Board of Directors at nine and to appoint the following directors in addition to those already in office on the date in question: Giuseppe Giannasio, Cristina Finocchi Mahne, Flavia Mazzarella and Tommaso Longhi. On August 8, 2018 the Board of Directors also appointed Maria Laura Garofalo Chief Executive Officer and granted her the relevant powers and authority.

Finally, on October 29, 2018 the Shareholders' Meeting resolved to set the number of members of the Board of Directors at eleven and appointed the directors Alessandra Rinaldi Garofalo and Nicola Colavito, with effect from the Initial Date of Trading.

At December 31, 2018 the Company's Board of Directors was comprised as follows:

1. Alessandro M. Rinaldi (Chairman of the Board)
2. Maria Laura Garofalo (Chief Executive Officer)
3. Claudia Garofalo (Director)
4. Umberto Suriani (Director)
5. Patrizia Crudetti (Director)

6. Giuseppe Giannasio (Director)
7. Alessandra Rinaldi Garofalo (Director)
8. Nicola Colavito (Director)
9. Cristina Finocchi Mahne (Independent Director)
10. Flavia Mazzarella (Independent Director)
11. Tommaso Longhi (Independent Director)

The Board of Directors thus composed will remain in office until the date of the Shareholders' Meeting called to approve the financial statements at and for the year ending December 31, 2020.

As mentioned above, during its session of August 8, 2018 the Board of Directors also adopted corporate governance motions, and in particular resolved:

- to establish a Control and Risks Committee and to appoint directors Cristina Finocchi Mahne, Flavia Mazzarella and Tommaso Longhi as members of the said Committee, assigning it the duties laid down in the Self-Governance Code, as well as the function of related party transactions committee, with the exception of remuneration, which will fall within the purview of the Nomination and Remuneration Committee to be formed;
- to establish a Nomination and Remuneration Committee and to appoint directors Cristina Finocchi Mahne, Flavia Mazzarella and Tommaso Longhi as members of the said Committee, assigning it the duties laid down in the Self-Governance Code;
- to approve the establishment of the Internal Audit Function and to appoint Maurizio Quintavalle of Marsh Risk Consulting as the Internal Audit Manager;
- to appoint Fabio Tomassini the executive officer responsible for the preparation of the Company's financial statements in accordance with Article 154-*bis*, paragraph one, of the CFA.

On December 21, 2018, the Board of Directors, acknowledging the proposal put forth by the director in charge of the internal control and risk management system and the favorable opinion issued by the Control and Risks Committee, appointed Maurizio Quintavalle of Marsh Risk Consulting S.r.l. as the Company's Internal Audit Manager.

On March 25, 2019 the Board of Directors appointed Maria Laura Garofalo director in charge of the internal control and risk management system in accordance with the Self-Governance Code, granting her the powers set out in the said Self-Governance Code.

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting on July 31, 2018 for the three-year period 2018-2020 and will remain in office until the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2020.

The members of the current Board of Statutory Auditors were elected with the majorities provided for by law for companies not listed on regulated markets and not according to the voting mechanism based on slates. The above mechanism will apply when the Board is re-elected.

The Company's Board of Statutory Auditors was comprised as follows at December 31, 2018:

1. Alessandro Musaiò (Chairman of the Board of Statutory Auditors)
2. Giancarla Branda (Standing Auditor)
3. Francesca di Donato (Standing Auditor)
4. Andrea Bonelli (Alternate Auditor)
5. Jacopo Doveri (Alternate Auditor)

The Board of Directors of Garofalo Health Care S.p.A., which bears responsibility for the internal control and risk management system, in its role of guidance and coordination of the GHC Group, has prepared the “Guidelines for the Internal Control and Risk Management System” in order to ensure that the organization’s principal risks are properly identified, measured, managed and monitored, in line with the Group’s strategic objectives. The document laying down the Guidelines for the Internal Control and Risk Management System was approved by the Board of Directors on April 18, 2019

In particular, the document sets out the relevant rules and principles, duties and responsibilities and methods of coordination of the main participants in the GHC Group’s Internal Control and Risk Management System applied within the Group in the course of 2018. The Internal Control and Risk Management System plays a central role in the decision-making process of Garofalo Health Care S.p.A. in its capacity as a listed company. In accordance with the principles laid down in Art. 7 of the Borsa Italiana Self-Governance Code, the System is defined as the overall rules, procedures and organizational structures which permit, through an adequate process of identification, measurement, management and monitoring of the principal company risks within the Garofalo Health Care Group, management of the enterprise in accordance with the objectives set by the Board of Directors and in pursuit of the creation and protection of value in the medium-to-long term.

Related party transactions

Pursuant to Art. 5, paragraph 8, of the Consob Regulation No. 17221 of March 12, 2010 concerning “related party transactions” and subsequent Consob motions, it is reported that in 2018 transactions with related parties were primarily commercial and financial in nature and were undertaken at normal market conditions. The information on transactions with related parties required by Consob Communication No. DEM/6064293 of July 28, 2006 is presented and disclosed in financial statements. For a more detailed account, refer to the notes on “Related party transactions” of the consolidated financial statements and the financial statements of the parent company.

In accordance with the Regulation adopted by Consob with motion no. 17221 of March 12, 2010 and subsequent amendments, the Company adopted a related party transactions procedure by motion of the Board of Directors of November 27, 2018, available from the Company’s website.

The Company’s Board of Directors bears primary responsibility for the proper application of the said procedure. For the procedures adopted for transactions with related parties, also in accordance with Article 2391-bis of the Civil Code, reference should be made to the procedure adopted by Garofalo Health Care S.p.A pursuant to the Regulation approved by Consob with motion no. 17221 of March 12, 2010, subsequently amended by motions nos. 17389 of June 23, 2010, 19925 of March 22, 2017 and 19974 of April 27, 2017, published on the Company’s website.

Consolidated non-financial report (Legislative Decree 254/2016)

The Group in accordance with Article 5, paragraph 3, letter b of Legislative Decree 254/2016 has drawn up the consolidated disclosure non-financial information as a separate report. The 2018 consolidated non-financial disclosure, drawn up as per the “GRI Standards” and subject to limited audit by Deloitte S.p.A. is available on the Group website <http://www.garofalohealthcare.com>.

Research and development activity

In view of the nature of its business, the Group invests in research, innovation and development of the quality of the healthcare services provided.

The Scientific Committee, which includes important members of the scientific community, was formed in 2001 within the subsidiary Hesperia Hospital Modena S.p.A. with the goals of, inter alia: assessing and monitoring scientific projects, proposing the development of new clinical programs and evaluating the scientific merit of new technologies and their impact on improving procedures. Hesperia Hospital Modena plays an active part in developing research and

experimentation projects promoted by the specialists in charge of the clinical areas. The specialist physicians at Hesperia Hospital Modena collaborate with Italian and international universities and hospitals on various research projects and studies. Research and development activity continued to be performed in 2018, resulting in a significant improvement in the quantity of projects implemented, which rose from 14 in the previous year to 35 in 2018. In particular, transfemoral, transapical and transaortic aortic valve implantation (TAVI procedure) activity continued in 2018, in addition to the mitral TAVI procedure and further development of minimally invasive heart and orthopaedic surgery procedures. In 2018 Hesperia Hospital Modena S.p.A. continued its research and development activity, both in continuity with the efforts carried out in previous years and through new initiatives, the latter being aimed at: acquisition of new knowledge regarding the foundations of observable phenomena and events, without any plans for applications or direct commercial use; application of innovative surgical techniques and follow-up for patients who have undergone innovative surgical techniques; and development of innovative procedures and support methods for certain types of patients.

Through its residential psychiatric facility, the subsidiary Villa Von Siebenthal S.r.l., contributes significantly to scientific research regarding psychiatric conditions and clinical approaches at both the Italian and international level. The research projects carried out during the year resulted in a number of cases of international collaboration on clinical trial protocols.

The publication on severely agitated young bipolar patients treated with a dopamine partial agonist antipsychotic drug was included in the most important international CANMAT guidelines for bipolar disorder in 2018. Villa Von Siebenthal was among the top facilities at the international level involved in the experimental trial on depression that began in 2018 in terms of both the number of patients participating and the quality of the activity performed. The publications on young psychotic patients engaged in substance abuse are key contributions of international relevance. The research group includes physicians and psychologists from the staff at Villa Von Siebenthal in collaboration with physicians from various Italian universities. Current research projects include two international clinical trials on resistant depression, one international clinical trial on a quarterly long-acting antipsychotic drug, two clinical trials on antipsychotic treatment of young patients who engage in substance abuse and one clinical trial on the treatment of patients with lithium salts.

The subsidiary Villa Garda S.p.A. is actively engaged in research and development. In 2018 it conducted various studies through its Nutritional Rehabilitation Operating Unit, including: Validation of questionnaires (EPCL, QEWP-5, Dietary Rules Inventory); Study on the effect of internalized stigma on weight-loss outcomes and weight maintenance in severely obese patients; Study on external maintenance mechanisms in CBT-E; Study of the role of simple biomarkers (insulin and blood sugar) in facilitating weight loss with personalized diets in obese patients; Study of the psychopathology of eating disorders in adolescent patients; Study on processes linked to relapse following hospitalization by patients with anorexia nervosa; Analysis of early relapse following hospitalization by patients with eating disorders and obese patients; Study on the content of early sensitizing experiences and their possible role in the maintenance of eating disorders; Study on food avoidance/restriction disorder (diagnostic evaluation and treatment outcome); Study on the overeating maintenance mechanisms in patients suffering from binge-eating disorder; Short- and long-term effects of CBT-E in overweight and obese patients; Study of body image in obesity; Analysis of the importance of family support and motivation in weight loss treatment and weight maintenance in obese patients; Study of the role of malnutrition symptoms in the maintenance of the psychopathology of eating disorders in patients suffering from anorexia nervosa, in collaboration with the Department of Psychiatry of the University of Padua.

In 2018 the subsidiary Fides Medica S.p.A. promoted a research project with the Department of Naval, Electrical, Electronic and Telecommunications Engineering (DITEN) of the University of Genoa aimed at proving the rehabilitation efficacy of the Remote Monitoring Validation Engineering System (ReMoVES) in neuromotor and cognitive rehabilitation in patients admitted to the Genoa Rehabilitation Centre and other Group facilities. The ReMoVES platform guides patients through the performance of motor exercises through exergames, i.e. video games aimed at making physical activity more engaging.

The system may be installed both in rehabilitation centres and patients' homes and can be used in full autonomy, according to an individual treatment program based on the conditions prescribed by the therapist.

Management and coordination activity

Garofalo Health Care S.p.A is not subject to direction and co-ordination by another entity. Garofalo Health Care S.p.A is responsible for direction and co-ordination of its subsidiaries.

Significant events after the year end

On January 7, 2019, Garofalo Health care S.p.A. using own funds completed the acquisition of an additional holding of 30.75% in Casa di Cura del Prof. Nobili S.p.A., a company in which GHC already held 52.55% of the share capital. Subsequently, on January 16, 2019, an additional acquisition of 12.05% of the company was completed through the use of own financial resources.

As a result of these acquisitions, the overall investment of Garofalo Health care S.p.A. in the clinic rose to 95.35%, corresponding to 98.81% of voting rights. The price paid to acquire these holdings, overall comprising 42.80% of the share capital of Casa di Cura Prof. Nobili, is approx. Euro 2.6 million.

On January 29, 2019, the Board of Directors of the company approved the launch of a treasury share buyback programme, following authorisation by the Shareholders' Meeting of September 26, 2018 and with efficacy from November 9, 2018, the date on which the company's shares began trading on the Italian Stock Exchange. This treasury share buyback programme stipulates the purchase, in one or more tranches, of ordinary shares, up to a maximum limit of 1,230,000 (1.5% of the share capital of the company, at the date of the BoD motion): the maximum amount in cash allocated to the purchase programme is Euro 5 million, concluding on May 9, 2020.

On February 5, 2019, following the signing of a preliminary purchase contract on December 20, 2018 and announced to the market on December 21, 2018, the company completed the acquisition of the company Poliambulatorio Dalla Rosa Prati S.r.l., a diagnostic centre headquartered in Parma, operating both under the Emilia-Romagna Region accredited and private healthcare systems and under the agreement with the Parma Hospital for PET-TAC services. The price paid for the acquisition of the Poliambulatorio, settled by GHC through own resources, was approx. Euro 19.1 million. With this operation, the GHC Group consolidates its presence in Emilia-Romagna, where it has two major acute recovery clinics: the Hesperia Hospital in Modena and the Casa di Cura Prof. Nobili in Castiglione dei Pepoli (province of Bologna).

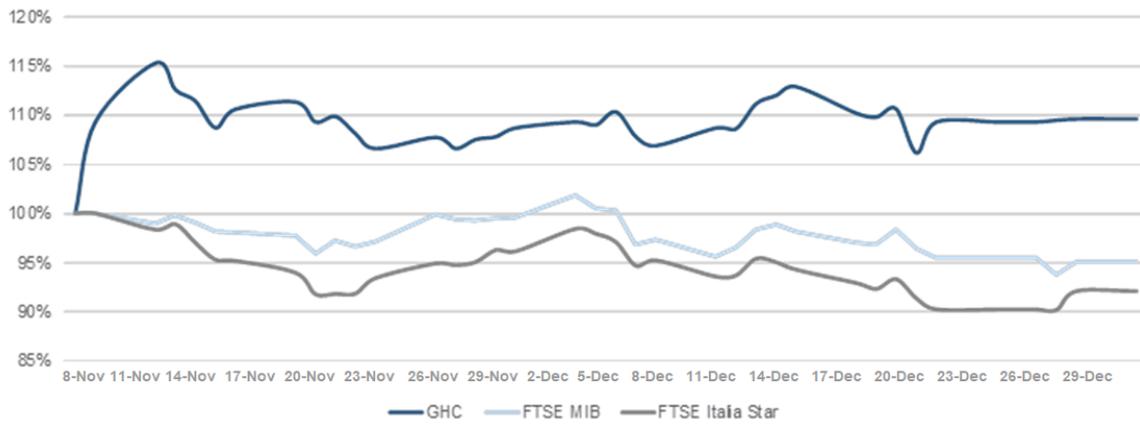
On April 12, 2019, in relation to the withdrawal from the subsidiary Villa Garda S.p.A. by the minority shareholder, with regards to the exercise of the right to withdrawal announced on June 20, 2018 by the minority shareholder, concerning point 22-quater of Article 2427 of the Civil Code, the calculation of the value of the shares subject to withdrawal made by the Sole Director on December 21, 2018 on the basis of the valuation undertaken by an independent expert became definitive in accordance with law. Consequently, on March 22, 2019, the 2,400 ordinary shares subject to withdrawal were offered as options to the other shareholder GHC S.p.A. at a unitary price of Euro 1,692.74 and for a total amount of Euro 4,062,568, in accordance with Article 2437-quater of the Civil Code. The shareholder GHC S.p.A. may exercise the option right within thirty days from the above offer date. Where the options are not taken up by the shareholder GHC S.p.A., they may be sold also to third parties and for this reason the outcome of the procedure is uncertain.

Share performance

Garofalo Health Care S.p.A. been listed on the MTA market organized and managed by Borsa Italiana S.p.A. since November 9, 2018.

The GHC share was up by 9.58% at December 31, 2018 on the initial placement price, having risen from Euro 3.34 to Euro 3.66 per share.

During the reporting period, the shares outperformed the two benchmark indices, the FTSE MIB ⁽¹⁾ and FTSE Italia Star ⁽²⁾, as shown in the following chart ⁽³⁾.



- (1) The FTSE MIB measures the performances of the shares of Italy's top 40 countries.
- (2) The FTSE Italia STAR measures the performances of the shares of companies listed on the STAR segment of the MTA market.
- (3) Prepared by GHC using data provided by FactSet.



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