GAROFALO HEALTH CARE S.P.A.

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2018

PARENT COMPANY REGISTERED OFFICE

Garofalo Health Care S.p.A.

Piazzale Belle Arti, 6 – Rome 00196

PARENT COMPANY LEGAL DETAILS

Approved share capital: €28,700,000

Share capital subscribed and paid in: €28,700.000(*)

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

VAT No.: 06103021009

Website: http://www.garofalohealthcare.com

*enrolled in the Companies Registration Office on 12/2/2019

CORPORATE BOARDS OF THE PARENT COMPANY

BOARD OF DIRECTORS

Alessandro M. Rinaldi - Chairman

Maria Laura Garofalo – Chief Executive Officer

Nicola Colavito (*) - Director

Alessandra Rinaldi Garofalo (*) - Director

Claudia Garofalo - Director

Umberto Suriani – Director

Patrizia Crudetti – Director

Giuseppe Giannasio – Director (*)

Cristina Finocchi Mahne – Director (*)

Flavia Mazzarella – Director (*)

Tommaso Longhi – Director (*)

(**) in office since November 9, 2018, the first day of the listing of the Company's shares on the MTA segment

BOARD OF STATUTORY AUDITORS

Alessandro Musaio – Chairman

Giancarla Branda – Statutory Auditor

Francesca Di Donato – Statutory Auditor

INDEPENDENT AUDIT FIRM

EY S.p.A.

EXECUTIVE OFFICER FOR FINANCIAL REPORTING

Mr. Fabio Tomassini

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2018

Consolidated Balance Sheet at December 31, 2018

		For the year ended December 31			
in Euro thousands		2018	of which related parties	2017	of which related parties
Goodwill	Note 2	38,815		38,815	
Other intangible assets	Note 3	14,053		14,276	
Property, plant and equipment	Note 4	93,145		89,950	
Investment property	Note 5	1,027		1,063	
Equity investments	Note 6	878		788	
Other non-current financial assets	Note 7	1,542		56	
Other non-current assets	Note 8	1,002		1,084	
Deferred tax assets	Note 9	3,250		3,326	
TOTAL NON-CURRENT ASSETS		**153,712**		**149,358**	
Inventories	Note 10	2,218		2,352	
Trade receivables	Note 11	35,239	299	38,399	2
Tax receivables	Note 12	3,084		2,018	586
Other receivables and current assets	Note 13	2,507	499	1,506	
Other current financial assets	Note 14	135		0	
Cash and cash equivalents	Note 15	92,287		22,635	
TOTAL CURRENT ASSETS		**135,471**		**66,910**	
TOTAL ASSETS		**289,183**		**216,268**	

		For the year ended December 31			
in Euro thousands		2018	of which related parties	2017	of which related parties
Share capital	Note 16	28,700		300	
Legal reserve	Note 16	60		40	
Other reserves	Note 16	136,507		82,685	
Group result for the year	Note 37	13,583		12,241	
TOTAL GROUP SHAREHOLDERS' EQUITY		**178,849**		**95,266**	
Minority interest capital and reserves	Note 16	6,519		6,544	
Minority interest result	Note 37	486		68	
TOTAL SHAREHOLDERS' EQUITY		**185,854**		**101,878**	
Employee benefits	Note 17	8,769		9,119	
Provisions for risks and charges	Note 18	6,150		8,397	
Non-current financial payables	Note 19	22,928		34,502	6,401
Other non-current liabilities		-		-	
Deferred tax liabilities	Note 9	8,385		7,642	
Derivative financial instrument liabilities - non-current	Note 20	11		11	
TOTAL NON-CURRENT LIABILITIES		**46,244**		**59,671**	
Trade payables	Note 21	20,751	358	19,296	309
Current financial payables	Note 22	22,142	5,953	20,496	
Tax payables	Note 23	394		3,908	3,280
Other current liabilities	Note 24	13,798	2,752	11,019	1,326
TOTAL CURRENT LIABILITIES		**57,085**		**54,719**	
TOTAL LIABILITIES		**103,328**		**114,390**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**289,183**		**216,268**	

2018 Consolidated Income Statement

		For the year ended December 31			
in Euro thousands		2018	of which related parties	2017	of which related parties
Revenues from services	Note 25	153,268		135,373	
Other revenues	Note 26	2,369		1,293	
TOTAL REVENUES		**155,637**		**136,666**	
Raw materials and consumables	Note 27	21,268		19,459	
Service costs	Note 28	62,840	1,197	51,058	762
of which non-recurring charges		*4,037*		-	
Personnel costs	Note 29	38,707		34,651	
Other operating costs	Note 30	7,063		6,616	
Amortisation, depreciation, and write-downs	Note 31	7,749		5,920	
Impairments and other provisions	Note 32	(987)		1,924	
TOTAL OPERATING COSTS		**136,641**		**119,628**	
EBIT		**18,996**		**17,038**	
Financial income	Note 33	10		875	
Financial charges	Note 34	(1,175)	(167)	(930)	
Results of investments at equity	Note 35	201		32	
TOTAL FINANCIAL INCOME AND CHARGES		**(964)**		**(23)**	
PROFIT BEFORE TAXES		**18,032**		**17,015**	
Income taxes	Note 36	3,964		4,706	
NET PROFIT FOR THE YEAR	**Note 37**	**14,069**		**12,309**	
Attributable to:					
Group	Note 37	13,583		12,241	
Minority interests	Note 37	486		68	
Basic and diluted earnings per share (in Euro)	**Note 38**	**0.17**		**0.20**	

2018 Comprehensive Consolidated Income Statement

In Euro thousands	For the year ended December 31	
	2018	**2017**
Profit for the year	**14,069**	**12,309**
Other components of the comprehensive income that will not subsequently be reclassified in profit/(loss) for the year		
Actuarial gains/(losses) of employee defined plans	-245	50
Tax effect	59	-12
Total other components of comprehensive income that will not subsequently be reclassified in profit/(loss) for the year net of tax	**-186**	**38**
Profit/(loss) recognised to equity	**-186**	**38**
Total comprehensive income	**13,883**	**12,347**
Attributable to:		
Group	13,399	12,266
Minorities	484	81

Statement of changes in consolidated shareholders' equity at December 31, 2018

in Euro thousands	Share capital	Legal reserve	Other reserves	Group net profit	Group Shareholders' Equity	Minority interest capital & reserves	Minority interest net profit	Consolidated shareholders' equity
December 31, 2016	**300**	**20**	**70,938**	**5,491**	**76,749**	**2,234**	**142**	**79,125**
Allocation of result	-	20	5,471	(5,491)	-	142	(142)	-
Profit before taxes	-	-	25	12,241	**12,266**	13	68	**12,347**
Share capital increase	-	-	6,245	-	**6,245**	1,249	-	**7,494**
Change in consolidation scope	-	-	-	-	-	2,908	-	**2,908**
Other movements	-	-	6	-	**6**	(2)	-	**4**
December 31, 2017	**300**	**40**	**82,685**	**12,241**	**95,266**	**6,544**	**68**	**101,878**
Allocation of result	-	20	12,221	(12,241)	-	68	(68)	-
Comprehensive profit	-	-	(184)	13,583	13,399	(2)	486	**13,883**
Share capital increase	20,700		(20,700)	-	-	-	-	-
IPO effects	7,700	-	62,463	-	**70,163**	-	-	**70,163**
Change in consolidation scope	-	-	29	-	**29**	(89)	-	**(60)**
Other movements	-	-	(7)	-	**(7)**	(2)	-	(9)
Balance at December 31, 2018	**28,700**	**60**	**136,507**	13,583	**178,850**	**6,519**	**486**	**185,855**

Consolidated cash flow statement at December 31, 2018

in Euro thousands	December 31	
	2018	**2017**
OPERATING ACTIVITIES		
Profit for the year	**14,069**	**12,309**
Adjustments for:		
- Amortisation and depreciation	6,206	5,714
- Provisions for employee benefit liabilities	1,959	1,995
- Provisions for risks and charges	(963)	1,924
- Doubtful debt provision	1,512	206
- Change in investments in associates valued under the equity method	(201)	-
- Change in other non-current assets and liabilities	(1,404)	75
- Net change in deferred tax assets and liabilities	879	539
- Change in fair value of derivative instruments	(0)	(9)
- Payments for employee benefits	(2,554)	(25)
- Payments for provisions for risks and charges	(1,284)	-
Changes in operating assets and liabilities:		
(Increase) decrease in trade and other receivables	1,649	4,473
(Increase) decrease in inventories	134	527
Increase (decrease) in trade and other payables	1,457	818
Other current assets and liabilities	(2,941)	(1,741)
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)	**18,518**	**26,805**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in intangible assets	(111)	(120)
Investments in tangible assets	(9,030)	(2,530)
Investments in financial assets	110	(504)
Acquisition of Casa di Cura Prof. Nobili, net of cash acquired	-	(2,120)
Acquisition Fi.d.es Group, net of cash acquired	-	(29,913)

CASH FLOW ABSORBED BY INVESTING ACTIVITIES (B)	**(9,031)**	**(35,187)**
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of medium-long-term loans	-	13,000
Repayment of medium-long-term loans		(5,440)
Issue/(repayment) of short-term loans	(9,928)	(2,479)
Distribution dividends	-	(750)
Share capital increase and shareholder payments	70,093	7,494
NET CASH FLOW GENERATED/(ABSORBED) BY FINANCING ACTIVITIES (C)	**60,165**	**11,825**
TOTAL CASH FLOWS (D=A+B+C)	**69,652**	**3,443**
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR (E)	**22,635**	**19,192**
CASH & CASH EQUIVALENTS AT END OF YEAR (F=D+E)	**92,287**	**22,635**
Additional information:		
Interest paid	**354**	**786**
Income taxes paid	**39**	**1,946**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2018

Note 1. Accounting standards and preparation basis for the Consolidated Financial Statements at December 31, 2018

1.1 Company information

The publication of the Group's consolidated financial statements for the period ended December 31, 2018 was approved by the Board of Directors on April 18, 2019.

1.2 General Principles

The consolidated financial statements of the GHC Group for the year ended December 31, 2018 (the "**Consolidated Financial Statements**") have been prepared in compliance with IFRS international accounting standards, supplemented by the related interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), previously called the Standing Interpretations Committee (SIC), as well as the provisions issued in implementation of article 9 of Legislative Decree no. 38/2005. The IFRSs applied are those in effect at the date of approval of the consolidated financial statements.

In the first few months of the second half of 2018, the Company undertook an analysis of the main impacts of the adoption of the standards set to be applied in the near future.

The adoption of the IFRS took place starting from 2015, the first consolidated financial statements prepared by the Company.

The Consolidated Financial Statements are presented in Euro thousands and all the amounts are rounded to the nearest thousand, unless otherwise specified.

They have been prepared based on the historical cost principle, except for derivative financial instruments that have been recognized at fair value.

The Consolidated Financial Statements, in the absence of uncertainties or doubts about the ability to continue business in a foreseeable future, have been prepared on the basis of business continuity. Based on the aforementioned principle, the Company was considered able to continue its business and therefore the assets and liabilities were accounted for on the assumption that the company will be able to carry out its activities and meet its liabilities during the normal course of business activity.

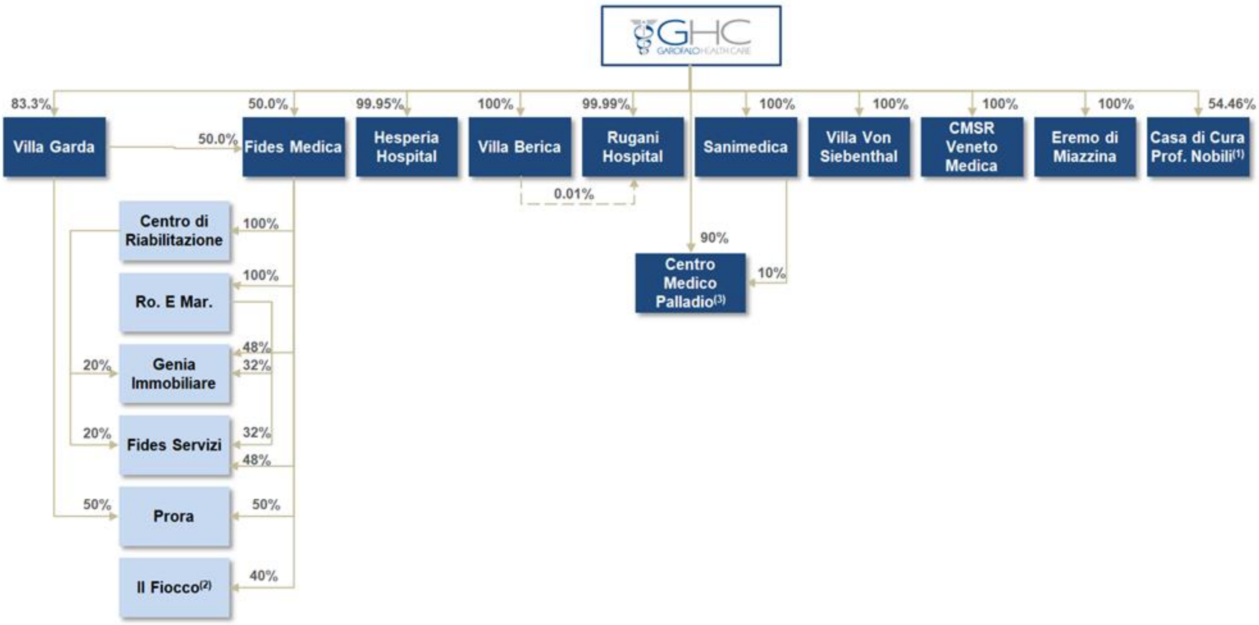
1.3 Financial Statements

The Consolidated Financial Statements of the Company consist of the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Shareholders' Equity, Cash Flow Statement and Notes.

The Balance Sheet has been classified on the basis of the operating cycle, with the distinction between current/non-current items. Based on this distinction, assets and liabilities are considered current if they are to be realized or settled in the normal operating cycle. The revenue and cost items recorded during the year are presented in two tables: an income statement, which reflects the analysis of the aggregate costs by nature, and a statement of comprehensive income. Lastly, the cash flow statement was prepared using the indirect method for determining the cash flows deriving from operating activities. With this method, the profit of the year is adjusted for the effects of the transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

1.4 Group Structure

The composition of the Group at December 31, 2018 is provided below.



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

1.5 Consolidation principles and scope of consolidation

The Consolidated Financial Statements include the financial statements of GHC and of its subsidiaries at December 31, 2018.

The details of the consolidated companies are shown below.

			Shareholding at December 31	Shareholding at December 31
Company	**Registered office**	**Structure**	**2018**	**2017**
Garofalo Health Care S.p.A.	Rome	Holding	Parent company	Parent company

Hesperia Hospital Modena S.p.A.	Modena	Accredited health structure	99.95%	99.95%
Casa di Cura Villa Berica S.p.A.	Vicenza	Accredited health structure	100.00%	100.00%
Rugani Hospital S.r.l.	Siena	Accredited health structure	100.00%	100.00%
CMSR Veneto Medica S.r.l.	Vicenza	Accredited health structure	100.00%	100.00%
Sanimedica S.r.l.	Vicenza	Accredited health structure	100.00%	100.00%
Centro Medico Palladio S.r.l. in liquidation	Vicenza	Accredited health structure	100.00%	100.00%
L'Eremo di Miazzina S.p.A.	Verbania	Accredited health structure	100.00%	100.00%
Casa di Cura Villa Garda S.p.A.	Garda	Accredited health structure	83.30%	83.30%
Villa Von Siebenthal S.r.l.	Genzano Romano	Accredited health structure	100.00%	100.00%
Casa di Cura Prof. Nobili S.p.A.	Castiglione di Pepoli (Bo)	Accredited health structure	54.46% (*)	52.90%
F.I.D.E.S. Medica S.r.l.	Piombino	Accredited health structure	100.00%	100.00%
Centro di Riabilitazione S.r.l.	Genoa	Accredited health structure	100.00%	100.00%
Genia Immobiliare S.r.l.	Genoa	Real Estate companies of the Fides Group	100.00%	100.00%
Ro. E. Mar S.r.l.	Piombino	Accredited health structure	100.00%	100.00%
Fides Servizi S.c.a.r.l.	Genoa	Companies providing services to the Fides Group	100.00%	100.00%
Prora S.r.l.	Genoa	Accredited health structure	100.00%	100.00%

(*) including treasury shares

The consolidation scope changed with respect to the previous year due to the acquisition of an additional equity interest of 1.5% of Casa di Cura Prof. Nobili S.p.A.

Ultimate parent

The ultimate parent of the Issuer is Raffaele Garofalo & C. S.A.p.A. with its registered office in Rome.

Associated companies

The Group holds a 40% interest in Il Fiocco S.c.a.r.l. through its subsidiary Fides Medica S.r.l., acquired in June 2017 together with Centro di Riabilitazione S.r.l., Ro E mar s.r.l., Prora S.r.l., Fides Servizi S.c.a.r.l. and Genia Immobiliare S.r.l. (hereinafter the “Fides Group”).

1.6 Summary of the main accounting standards

a) Business combinations and Goodwill

Business combinations are recognised using the purchase method. The purchase cost is calculated as the total of the fair value consideration transferred at the acquisition date, and the value of any minority equity holding. For every business combination, the Group decides whether to measure the minority interest at fair value or in proportion to the amount held in the identifiable net assets of the investee. The acquisition costs are expensed in the year and classified under administration expenses.

When the group acquires a business, the financial assets acquired or liabilities assumed under the agreement are classified or designated in accordance with the contractual terms, the economic conditions and the other conditions at the acquisition date. This includes the verification to establish whether an embedded derivative must be separated from the host contract.

Any potential payment to be recognised is recorded by the acquirer at fair value at the acquisition date. The contingent amount classified as equity is not remeasured and its subsequent payment is accounted for with a balancing entry in shareholders' equity. The change in the fair value of the contingent amount classified as an asset or liability, as a financial instrument covered by IFRS 9 Financial instruments: recognition and measurement, must be recognized in the income statement in accordance with IFRS 9. The contingent amount that does not fall within the scope of IFRS 9 is measured at fair value at the reporting date and changes in fair value are recognized in the income statement.

Goodwill is initially stated at cost represented by the excess of the total amount paid and the amount recognized for minority interests in respect of the net identifiable assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the total consideration paid, the Group again verifies if it has correctly identified all the assets acquired and all the liabilities assumed and reviews the procedure utilised to determine the amount to be recorded at the acquisition date. If from the new valuation the fair value of the net assets acquired is still above the consideration, the difference (profit) is recorded in the income statement.

After initial recognition, goodwill is measured at cost less any loss in value. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash-generating units expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of the disposal. The goodwill associated to assets sold is calculated based on the relative values of the asset sold and the part maintained by the cash generating unit.

b) Other intangible assets

Intangible assets acquired separately are initially recognized at cost, while those acquired through business combinations are recognized at fair value on the acquisition date. After initial recognition, intangible assets are recognized at cost, net of accumulated amortization and accumulated impairment, if any. Intangible assets internally generated, with the exception of development costs, are not capitalised and are recorded in the income statement of the financial year in which they were incurred.

Intangible assets with a definite useful life are amortized over their useful life and tested for impairment whenever there is evidence of a loss of value. The amortization period and the amortization method of an intangible asset with definite useful life are reconsidered at least at the end of each year. Changes in the expected useful life or in the manner in which the future economic benefits related to the asset will be realized are recognized through the change in the period or amortization method, as the case may be, and are considered changes in accounting estimates. The amortisation of finite intangible assets is recorded in the separate income statement under the category of costs relating to intangible assets.

Intangible assets with indefinite useful life are not amortized but are subject to an annual impairment test at an individual level or at cash-generating unit level. The valuation of the indefinite useful life is reviewed annually to determine whether this allocation continues to be sustainable, otherwise, the change from indefinite useful life to definite useful life is applied on a prospective basis.

The profits or losses deriving from the derecognition of an intangible asset are calculated as the difference between the net revenue from the disposal and the carrying value of the intangible asset and are recognized in the Profit/(Loss) Statement of the year at the time of derecognition.

Description	Years
Goodwill	indefinite useful life
Accreditation	indefinite useful life
Concessions, licenses, trademarks and similar rights	5 years
Software	5 years
Other intangible assets	5 years

c) *Property, plant and machinery*

Property, plant and equipment purchased separately are recorded at historical cost, including ancillary costs directly attributable and necessary for entry into operation of the asset for the use for which it was purchased; said cost includes expenses for the replacement of part of machinery and plants at the time they are incurred, if they comply with the recognition criteria.

Property, plant and equipment acquired through business combinations are recognized at fair value determined at the acquisition date.

Maintenance and repair expenses, which do not increase the value and/or extend the residual useful life of the asset are expensed in the year in which they are incurred; where they increase the value and/or extend the residual life of the assets, they are capitalised.

Property, plant and equipment are stated net of the relevant accumulated depreciation and impairment, if any, determined according to the methods described below. Depreciation is calculated on a straight- line basis over the estimated useful life of the asset. This period is reviewed annually and any changes are made on a prospective basis.

The estimated useful life, expressed in years, of the main classes of tangible assets is as follows:

Description	Years
Buildings	33/50/ based on contract duration
Plant and machinery	10 years
Industrial and commercial equipment	8 years
Furniture and fittings	10 years
EDP	5 years
Motor and transport vehicles	4 years

If components of property, plant and equipment have different useful lives, these components are accounted for separately. Land, whether free of construction or related to buildings, is recognized separately and is not depreciated as elements of unlimited useful life.

The book value of plant, property and equipment is subject to verification of any loss in value when events or changes occur indicating that the carrying value can no longer be recovered.

At the time of sale, or when there are no expected future economic benefits from the use of an asset, it is eliminated from the financial statements and any loss or profit (calculated as the difference between sale's price and book value) is charged to the income statement in the year of its elimination.

d) *Leased assets*

The definition of a contractual agreement as a lease transaction (or containing a lease transaction) is based on the substance of the agreement and requires an assessment of whether fulfilment of the agreement depends on the use of one or more specific assets and if the agreement transfers the right to use them. The verification that an agreement contains a lease is carried out at the beginning of the agreement.

A leasing contract is classified as a finance lease or an operating lease at the beginning of the lease. A lease contract that substantially transfers to the Group all the risks and rewards of ownership of the asset leased is classified as a finance lease.

Finance leases are capitalised at the commencement date of the lease at fair value of the leased asset or, if lower, at the present value of the lease payments. The lease payments are divided between a capital portion and an interest portion in order to obtain a constant interest rate on the residual balance of the payable. Financial charges are recorded in the income statement.

Leased assets are depreciated on the basis of the useful life of the asset. However, where there is no reasonable certainty that the Group will obtain ownership of the asset at the end of the contract, the asset is amortized over the shorter period of time between the estimated useful life of the asset and the duration of the lease contract.

An operating lease is a leasing contract which does not qualify as a finance lease. Operating lease payments are recognized as costs in the income statement on a straight-line basis over the duration of the contract.

e) *Investment property*

Tangible assets held for income and not for instrumental use are classified in a specific class called Investments properties, in accordance with IAS 40, and are accounted for at cost. The assets included in these cases consist of land and/or buildings (or parts of buildings) held by the owner or tenant under a finance or operating lease in order to lease them or for the appreciation of the capital invested.

These types of properties are classified separately from other owned assets. Investments properties are shown net of the related accumulated depreciation and any impairment. The useful life of the Group's Investments properties is 33 years.

f) Impairments

The Group assesses whether there is evidence of impairment of Intangible assets and Property, plant and equipment on each reporting date and of goodwill and accreditation on an annual basis. Where such indicators arise, an impairment test is made.

In the event that the carrying value (book value) of the assets exceeds the recoverable value, they are written down to reflect the latter. The recoverable amount is determined as the higher of the fair value of an asset or cash-generating unit net of costs of sale and its use value and is determined for each asset individually, unless an asset generates cash flows that are not largely independent from those generated by other assets or groups of assets; in this case, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

In measuring the value in use, the Group discounts the future estimated cash flows to their present value, using a pre-tax discount rate that reflects the market assessments of the time value of money and the specific risks associated with the asset.

For the purpose of estimating the value in use, future cash flows are derived from the business plans approved by the Board of Directors, which constitute the best estimate that can be made by the Group on the economic conditions expected in the period of the plan. The projections of the plan normally cover a time span of three years; the long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate of the sector, country or market of reference.

When the carrying amount of an asset or cash-generating unit is higher than its recoverable amount, this asset has incurred an impairment loss and is consequently written down to the recoverable amount.

Impairment losses incurred by operating assets are recorded in the income statement in the category of costs relating to those assets. At each reporting date, the Group also assesses the existence of indicators of a decrease in previously recognized impairment losses and, if such indicators exist, makes a new estimate of the recoverable amount. A previously recognized impairment loss can be reversed only if there have been changes in the estimates used to determine the recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is recorded at the recoverable value, while the restated value must not exceed the carrying amount which would have been determined, after amortisation or depreciation, if no loss in value had been recognised in previous years. Each reversal is recognized as income in the income statement; after a reversal is recognized, the depreciation or amortization charge for the asset is adjusted in future periods to allocate the asset's revised book value, less its residual value, if any, on a systematic basis over its remaining useful life. Impairment of goodwill cannot in any case be subject to reversals.

g) Investments in associates and other companies

An associate is a Company in which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an investee, however not exercising control or joint control. An investee holding 20% or more indicates significant influence unless the contrary is proven.

Investments of the Group in associated companies are measured using the equity method.

With the equity method, the investment in an associated company is initially recorded at cost. The accounting value of the investment is increased or decreased to recognize the investor's share of the profits and losses of the investee realized after the acquisition date. The goodwill relating to the associate is included in the book value of the investment and is not subject to a separate impairment test.

The profit/(loss) statement for the year reflects the Group's portion of the operating result of the associated company. Any change in the other components of the comprehensive income statement relating to these investee companies is presented as part of the Group's comprehensive income statement. Furthermore, in the event that an associated company recognizes a change directly attributable to shareholders' equity, the Group recognizes its portion, where applicable, in the statement of changes in equity. Unrealized gains and losses deriving from transactions between the Group and associated companies are derecognized in proportion to the shareholding in associates.

The aggregate portion attributable to the Group of the result for the year of associated companies is shown in the profit/(loss) statement for the year after the operating result and represents the result net of taxes and of the portions of the other shareholders of the associate.

The financial statements of associates are prepared on the same closing date as the Group financial statements. Where necessary, the financial statements are adjusted to conform them with the Group's accounting standards.

After applying the equity method, the Group assesses whether it is necessary to recognize an impairment loss of its investment in the associated companies. The Group at each reporting date assesses whether the investments in associates have incurred a loss in value. In this case, the Group calculates the amount of the loss as the difference between the recoverable value of the associate or the joint venture and the carrying amount of the same in its financial statements, recognizing said difference in the profit/loss statement in the item "portion of the result of associates and joint ventures".

Upon loss of significant influence over an associated company or joint control over a joint venture, the Group assesses and recognizes the residual shareholding at fair value. The difference between the carrying amount of the investment at the date of the loss of significant influence or of the joint control and the fair value of the residual investment and the amount received is recognized in the income statement.

h) Current/non-current classification

Assets and liabilities in the financial statements of the Group are classified according to the current/non- current criterion.

An asset is current when:

- it is expected to be realized, or is held for sale or consumption, in the normal course of the operating cycle;
- it is held mainly for the purpose of negotiating it;
- it is expected to be realized within twelve months of the closing date of the year; or
- it consists of cash or cash equivalents unless it is forbidden to exchange it or use it to settle a liability for at least twelve months from the closing date of the financial year.

A liability is current when:

- it is expected to be settled within the normal operating cycle;
- it is held principally for trading;
- it must be settled within twelve months of the closing date of the year; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months of the closing date of the year.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

i) Inventories

Inventories are stated at the lower cost between the acquisition or manufacturing cost, determined according to the FIFO method and the estimated realizable value based on market prices.

The purchase cost also includes directly attributable ancillary costs and returns, trade discounts, rebates, premiums and any contributions recognized by suppliers are always deducted from the same.

The value of inventories was recorded net of any impairment provisions.

j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand and short-term deposits. Short-term deposits must have an original maturity of three months or less and not subject to significant risks related to the change in value.

k) Financial payables

All loans are initially recognized at fair value of the amount received, less ancillary costs incurred in connection with the arrangement of the loan.

After initial recognition, loans are measured at amortized cost, using the effective interest rate method.

Any gain or loss is recognized in the income statement when the liability is extinguished, as well as through the amortization process.

l) Provisions for risks and charges

Allocations to Provisions for risks and charges are made when the Group must fulfil a current obligation (legal or implicit) arising from a past event, when an outflow of resources in order to fulfil this obligation is probable and it is possible to make a reliable estimate of its amount.

If the discounting effect of the value of money is significant, allocations are discounted using a pre-tax discount rate that reflects, where appropriate, the specific risks associated with the liabilities. When provisions are discounted, increases resulting from the passage of time are recognized as borrowing costs.

m) Employee benefit provisions

Post-employment benefits are defined on the basis of programs, even if not formalized, which according to their characteristics are divided into “defined benefit” programs and “defined contribution” programs.

Italian legislation (article 2120 of the Civil Code) provides that, on the date on which each employee terminates the employment contract with the company, indemnity referred to as TFR is received. The calculation of this indemnity is based on some items that make up the employee’s annual salary for each year of work (appropriately re-evaluated) and on the length of the employment relationship. According to Italian civil law, this indemnity is reflected in the financial statements according to a calculation method based on the indemnity accrued by each employee at the reporting date, in the event that all employees terminate the employment contract on that date.

The International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) addressed the subject of the Italian TFR and concluded that, in application of IAS 19, it must be calculated according to a method called Projection Unitary Credit Method (PUCM), according to which the amount of liabilities for the benefits acquired must reflect the date of expected resignation and must be discounted.

The actuarial assumptions and the related effects take into consideration the regulatory changes introduced by the Italian legislator, which provided for the option for the employee to allocate the TFR accrued from July 1st, 2007 to INPS or supplementary pension funds.

The Group’s net obligation deriving from defined benefit plans is calculated by estimating the amount of the future benefit that employees have accrued in exchange for the activity performed in the current year and in previous years; this benefit is discounted to calculate the current value. The actuarial gains and losses referring to the defined benefit plans accumulated up to the previous year and which reflect the effects deriving from changes in the actuarial assumptions used, are recognized in full in the comprehensive income statement.

The actuarial valuation of the liability was entrusted to an independent actuary.

The Group does not have other defined benefit pension plans.

The obligation of the Group deriving from defined contribution plans is limited to the payment of contributions to the State or to a legally separate asset or entity (fund), and is determined on the basis of the contributions due.

n) Financial instruments

The final version of the new IFRS 9 Standard, divided into three pillars, determines the need to review the processes and criteria for the management of financial instruments in terms of "Classification and Measurement", "Impairment" and "Hedge Accounting".

Regarding Classification & Measurement, the Standard provides for new rules for the classification of financial assets in the following categories:

- Amortised cost – "CA";
- Fair value with changes in equity (Fair Value Other Comprehensive Income) – "FVOCI";
- Fair value with changes in the income statement (Fair Value through Profit and Loss) – "FVTPL".

This classification is carried out according to two discriminating factors:

- The Business Model that the Company has associated with each of the portfolios identified and the characteristics of the contractual cash flows of the financial instrument (SPPI Test – Solely Payments of Principal and Interest).
-

Regarding Impairment, the main changes concern:

- The change in the scope of application of financial assets subject to the impairment process;
- The introduction of an impairment model based on expected losses (Expected Credit Loss) with the adoption of a Forward-Looking approach;
- The classification of financial instruments in three stages of credit quality and the consequent need to adopt a specific Stage Assignment Framework;
- The calculation of value adjustments according to the stage of credit quality attributed.

In the case of financial assets not recognized in the income statement, the Group initially evaluates a financial asset at its fair value plus transaction costs.

Classification criteria in Stages ("stage assignment") - general approach

The Group recognizes a write-down for expected credit losses (ECLs) on all financial assets represented by debt instruments not held at fair value recognized to the Income Statement. ECLs are based on the difference between the contractual cash flows due under the contract and all cash flows that the Groups expects to receive, discounted at an approximation of the effective original interest rate. Expected cash flows will include the cash flows from the enforcement of collateral held or other credit guarantees that are an integral part of the contractual conditions.

Expected credit losses are recognized in two stages. Where there has not been a significant increase in the credit risk associated with the credit exposures since initial recognition, expected credit losses are recognized on the basis of the estimated default events that are possible within the 12 following months (12-month ECLs). Where there has been a significant increase in the credit risk associated with the credit exposures since initial recognition, the expected credit losses over the entire residual term of the exposure are recognized in full, regardless of when the default event is expected to occur (lifetime ECLs).

The Group takes a simplified approach to calculating the expected credit losses on trade receivables and assets deriving from contracts. Accordingly, the Group does not monitor changes in credit risk, but recognizes the full expected credit loss at each reporting date. The Group has implemented a matrix system based on historical information, revised to consider prospective elements with regard to specific types of debtors and their economic environment, as a means of determining expected credit losses.

Provisioning rates are based on days past due for each class of customers grouped into the various segments that present similar historical loss performances (for example, by geographical area, product type, customer type, rating and guarantees).

The matrix is initially based on the historical insolvency rates observed by the Group. The Group will calibrate the matrix to refine the historical credit loss data with forecast elements. For example, if it is expected that forecast economic conditions (for example, gross domestic product) will worsen in the following year, and this may result in an increase in the number of cases of default in the manufacturing sector, then the historical default rates are adjusted accordingly. At each reporting date, historical insolvency rates are updated and changes in estimates of forecast elements are analysed.

The assessment of the correlation between historical default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and expected economic conditions. The Group’s historical credit loss experience and forecast economic conditions might also fail to be representative of actual defaults by customers in the future. Information on ECLs on the Group’s trade receivables and contract assets is provided in Note 11.

Cash and cash equivalents, such as current accounts held as assets valued at amortized cost, are also subject to the general impairment rule. However, in view of the fact that they are demand accounts, the expected losses over the 12 months and the expected losses of the useful life coincide.

For other receivables, the parameters for determining the significant increase in credit risk (SICR) have been defined, for the purpose of correctly allocating performing exposures to stage 1 or stage 2 (“tracking”). On the other hand, with reference to “impaired” exposures, account is taken of current logics of classification of exposures that are adequate with respect to the classification logics of exposures in stage 3.

With reference to the “tracking” of credit quality, a precise analysis was carried out of the credit quality of each individual relationship, for the purpose of identifying any “significant deterioration” of the same from the date of initial recognition and the consequent need for classification in stage 2, as well as a specular analysis, of the conditions for returning to stage 1 from stage 2. Specifically, in order to distinguish receivables that do not show signs of SICR (stage 1) from those that show such signals (Stage 2), the Group has chosen, in line with the requirements introduced by IFRS 9, to analyse the following relevant aspects:

- The change in the creditworthiness of the counterparty (assessed based on the outcome of the recovery and reminder actions);
- The expected life of the receivable;
- The “forward looking” information that can influence credit risk (i.e. the deviation of financial instruments as guarantee).

The Company's Stage Assignment Framework for non-trade receivables provides for the need to classify Performing financial instruments in 2 different stages, each representing increasing levels of risk:

- Stage 1 includes all receivables that have not undergone a "SICR" or, although they have recorded a change in credit risk over time, are characterized by a low level of credit risk at the reporting date;
- Stage 2 includes receivables that have recorded a "SICR" on the reporting date compared to the first recognition and this level of risk can no longer be considered low.

The classification of receivables in Stage 3, on the other hand, is envisaged for all relationships in default at the reporting date.

IFRS 9 requires the Group to recognize an allocation for expected credit losses (ECL) for all loans and other receivables that represent a financial asset that are not held at FVPL.

In consideration of the nature of the instruments as well as of the Company's business plan, the breakdown by technical form has been identified as the relevant level at which to conduct the analysis of the business model for the company. When the business model of an asset or a portfolio of assets is of the type hold to collect or both hold to collect and sell, the next step of the assessment consists in analysing the contractual cash flows to verify that they represent only the repayment capital and interest (hereinafter SPPI).

An entity must always check the contractual cash flows when it becomes part of the contractual clauses of the instrument and, therefore, the retrospective application in accordance with IFRS 9 requires the asset to be analysed on the basis of the evidence at the time of recognition in the financial statements. However, it is noted that an instrument that has been restructured or renegotiated so as not to lead to derecognition of the original asset and the recognition of the new asset, should not be the subject of a new SPPI Test.

The Standard provides for the classification and measurement of financial liabilities at amortized cost with the exception (IFRS 9 par. 4.2.1) of:

- Financial liabilities measured at FVTPL (including derivative financial instruments);
- Financial liabilities arising when the transfer of a financial asset does not meet the criteria for derecognition or when the approach of residual involvement is applied;
- Financial guarantees and commitments to provide loans;
- Potential amount recognized by the acquirer in a business combination to which IFRS 3 Business Combinations applies.

The Standard maintains the possibility of opting, at the time of initial and irrevocable entry, for fair value measurement with a balancing entry in the income statement (fair value option) when (IFRS 9 par. 4.2.2 and 4.3.5):

- The liability includes an embedded derivative;
- The designation allows the elimination or significant reduction of a valuation or recognition inconsistency (accounting mismatch);
- The liability is included in a group of liabilities managed at fair value based on a documented policy.

For financial liabilities designated at fair value, the Standard requires gains or losses to be recognized as follows:

- The changes in the fair value of financial liabilities that are attributable to changes in their credit risk are recognized in equity (without reversal to the income statement). In the event of repurchase, the reserve could be reclassified to an available equity reserve;
- The remaining change in fair value of liabilities is recognized in the income statement.

In summary, the rules for the classification and measurement of financial liabilities envisaged by the Standard have not changed compared to the previous IAS 39 Financial instruments: recognition and measurement, except for the new accounting rules, or the recognition of cumulative fair value changes related to credit risk in OCI. Below is an example of IFRS 9 treatment regarding financial liabilities.

o) Fair value measurement

The Group assesses financial instruments, such as derivatives and capital instruments, at fair value at each reporting date.

Fair value is the price that would be received for the sale of an asset, or that would be paid to transfer a liability in an arm's length transaction at the measurement date. A fair value measurement assumes that the sale transaction of the asset or transfer of the liability takes place:

- in the main market of the asset or liability;

or

- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market or the most advantageous market must be accessible for the Group.

The fair value of an asset or liability is measured adopting the assumptions which market operators would utilise in the determination of the price of the asset or liability, assuming they act to best satisfy their economic interests.

The fair value measurement of a non-financial asset considers the capacity of a market operator to generate economic benefits utilising the asset to its maximum and best use or selling to another market operator that would utilise the asset to its maximum or best use.

The Group utilises measurement techniques which are appropriate to the circumstances and for which there is sufficient available data to measure the fair value, maximising the utilisation of relevant observable inputs and minimising the use of non-observable inputs.

All the assets and liabilities for which the fair value is measured or stated in the financial statements are categorised based on the fair value hierarchy, as described below:

- Level 1 - prices listed (not adjusted) on active markets for identical assets or liabilities which the entity can access at the measurement date;

- Level 2 - inputs other than listed prices included in Level 1, directly or indirectly observable for the asset or the liability;

- Level 3 - measurement techniques for which the input data are not observable for the asset or for the liability.

The fair value measurement is classified entirely in the same fair value hierarchical level in which the lowest hierarchical input level utilised for the measurement is classified.

For the assets and liabilities recognised in the financial statements at fair value on a recurring basis, the Group assesses whether there have been transfers between the hierarchy levels, reviewing the classification (based on the lowest input level, which is significant for the fair value measurement in its entirety) at each reporting date.

The Group Financial Committee determines the criteria and procedures for both recurring fair value measurements, such as capital instruments, and for non-recurring measurements. The Group Financial Committee includes the financial managers of each structure and the financial manager of the Group.

External appraisers are involved in the valuation of significant assets, such as real estate property, and significant liabilities. This involvement is decided annually after discussion and with the approval of the Board of Statutory Auditors. Selection criteria include knowledge of the market, reputation, independence and compliance with professional standards. Following the discussion with external appraisers, the Group Financial Committee decides which evaluation techniques and which inputs to use for each case.

At each reporting date, the Group Financial Committee analyses the changes in the values of assets and liabilities for which the revaluation or recalculation is required, based on the Group's accounting standards.

For this analysis, the main inputs applied in the most recent assessments are verified by comparing information used in the assessment to contracts and other relevant documents.

The Group Financial Committee carries out, with the support of external appraiser, a comparison between each change in the fair value of each asset and liability and the relevant external sources, in order to determine whether the change is reasonable. The results of the evaluations are presented periodically to the Board of Statutory Auditors and to the Group's auditors. This presentation includes a discussion of the main assumptions adopted in measurement.

For fair value disclosure purposes, the Group classifies assets and liabilities according to type, characteristics and the risks associated with the assets and the liabilities and the fair value hierarchy level, as previously illustrated.

Summarized below are the notes relating to the fair value of financial instruments and non-financial assets measured at fair value, and those in which fair value disclosures are presented:

- Evaluation techniques, discretionary evaluations and significant accounting estimates Note 2;
- Quantitative information on the fair value measurement hierarchy Note 40;
- Financial instruments (including those valued at amortized cost) Note 21.

p) Recognition of revenues from sales and services

With Regulation no. 2016/1905 issued by the European Commission on September 22, 2016, IFRS 15 "Revenue from contracts with customers" (hereinafter IFRS 15) was approved, which defines the criteria for recognition and measurement of revenues deriving from contracts with customers. The standard will replace all current requirements in the IFRS regarding revenue recognition and envisages a new five- phase model that will apply to revenues from contracts with customers. In general, IFRS 15 requires the recognition of revenues for an amount that reflects the amount to which the entity believes to be entitled in exchange for the transfer of goods or services to the customer. In particular, IFRS 15 requires the recognition of revenues to be based on the following 5 steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations (i.e. the contractual promises to transfer goods and/or services to a customer); (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified based on the stand-alone sale price of each good or service; and (v) recognition of the revenue when the related performance obligation has been fulfilled. Furthermore, IFRS 15 complements the disclosures to be provided with reference to the nature, amount, timing and uncertainty of resulting revenues and related cash flows. The provisions of IFRS 15 are effective for years beginning on or after January 1, 2018; earlier application is permitted.

The Group operates in the accredited private healthcare sector and its activity takes the form of services in acute areas, outpatient services, long hospitalization and rehabilitation, and accounts for its revenues for these services as follows:

- Services in acute areas: The Group accounts for revenues for these services when the control of the asset has been transferred to the customer, coinciding with the moment in which the health intervention is performed;

- Outpatient services: The Group accounts for revenues for these services when the control of the asset has been transferred to the customer, coinciding with the moment in which the health intervention is performed;

- Long hospitalization and rehabilitation: The Group accounts for revenues for these services when the control of the asset has been transferred to the customer, coinciding with the moment in which the health intervention is performed. In the case of long hospitalization, a daily allowance is provided, making the payment directly commensurate with the number of hospital days.

It is clarified that with reference to the above services provided under the agreement, revenues are recognized in the maximum limit of the regional annual cost cap assigned to the Company if present, while with reference to revenues from private and/or insured customers, they are recorded in relation to the service actually provided.

q) Recognition of costs

Costs are recognised on the acquisition of the goods or service.

r) Financial income and charges

Financial income and expenses are recorded on an accruals basis on the interest matured on the net value of the relative financial assets and liabilities and utilising the effective interest rate.

s) Income taxes

(1) Current income taxes

Current taxes reflect an estimate of the tax burden, determined by applying the legislation in effect in the countries in which the Garofalo Health Care Group operates. Current tax liabilities are calculated using the rates in effect or substantially approved on the closing date of the financial year.

The payable for current taxes is classified in the balance sheet, net of any tax advances paid.

Deferred taxes

Deferred taxes are calculated on deductible (deferred tax assets) and taxable (deferred tax liabilities) temporary differences resulting at the reporting date between the tax values taken as reference for assets and liabilities and the values in the financial statements.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax losses and unused tax credits can be utilised.

The value to be recognized in the financial statements of deferred tax assets is reviewed on each reporting date and reduced to the extent that it is no longer likely that sufficient tax profits will be available in the future in order to allow all or part of this receivable to be used.

Unrecognized deferred tax assets are reviewed annually at the reporting date and are recognized to the extent that it has become likely that future taxable income will be sufficient for their recovery.

Deferred tax assets and liabilities are measured using the tax rates that are expected to be applied in the years in which the assets are realized or the liabilities are settled, considering the rates currently in effect and those already issued, or substantially issued, at the reporting date.

Deferred taxes and liabilities are recognized directly in the Income Statement, with the exception of those relating to items recognized directly in equity; in this case, the related deferred taxes are recorded consistently without recognition in the income statement.

Deferred tax assets and liabilities are offset if there is a legal right to compensate current tax assets with current tax liabilities and the deferred taxes refer to the same legal entity and the same tax authority.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Indirect taxes

Costs, revenues, assets and liabilities are recognized net of indirect taxes, such as value added tax, with the following exceptions:

- the tax applied to the purchase of goods or services is non-deductible; in this case, it is recognized as part of the purchase cost of the asset or part of the cost recognized in the income statement;

- trade receivables and payables include the indirect tax applicable.

The net amount of indirect taxes to be recovered or paid to the tax authorities is included in the financial statements as receivables or payables.

t) Basic and diluted earnings per share

The accounting standard IAS 33 - Earnings per Share regulates the calculation and disclosure to be provided to users of the financial statements in terms of basic and diluted earnings per share. The classes of financial instruments identified by the standard that must be considered for the calculation of the aforementioned indicators are options, warrants, instruments convertible into shares (ex. convertible bonds) and similar.

Basic earnings per share are calculated on the basis of the profit for the period divided by the weighted average number of ordinary shares during the year.

Diluted earnings per share are calculated on the basis of the diluted earnings for the period attributable to the shareholders of the Parent Company, divided by the weighted average number of ordinary shares outstanding, modified by the number of potentially dilutive ordinary shares.

The Company does not present potentially dilutive financial instruments and therefore the two indicators coincide.

u) Segment disclosure

The identification of the operating sector in which the Company operates is carried out on the basis of the accounting standard IFRS 8 - Operating Segments. On December 12, 2012, the IASB issued a set of amendments that have made changes to the aforementioned standard requiring that information be provided on the assessments made by the company management in the aggregation of the operating segments describing the segments that have been aggregated and the economic indicators that have been evaluated to determine that the aggregated segments have similar economic characteristics.

The GHC Group is one of the main operators in the private healthcare sector accredited in Italy in terms of turnover, operates through eighteen healthcare facilities located in six Italian regions, and offers a wide range of services covering all sectors of health, which includes and is divided into the hospital and social-care sectors, thanks to the diversification of the specialities provided, the use of cutting-edge technology and highly qualified personnel.

In particular, the Group operates in six regions of North and Central Italy, where it is present through a single business unit in the:

- *hospital sector*, through acute admissions, long hospitalization, post-acute rehabilitations and outpatient services (the “Hospital Sector”);
- *social-care sector*, through residential admissions (the “Social-Care Sector”).

The GHC Group facilities are located in the following Italian regions: Piemonte (two), Veneto (five), Emilia Romagna (two), Liguria (11, of which four owned by Il Fiocco, an associated company of Fides Medica S.r.l. consolidated according to the equity method), Tuscany (one) and Lazio (one).

The *Hospital Sector* is in turn sub-divided into three sectors: (i) hospitalization of acute patients, (ii) post-acute care and (iii) outpatient services.

The *Social-Care Sector*, represented by all the activities and services also specialized in the treatment of complex physical, neurological and sensory pathologies, offers, in a residential scheme, assistance to the elderly 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.

From the point of view of the Group’s management organization, the activity carried out was grouped into a single Strategic Business Unit (hereinafter “SBU”), which includes the entire business. This approach stems from the fact that the only activity carried out consists of operating in the accredited private health sector, through various services offered but that are managed jointly by management.

The Group’s management observes together the results achieved by the single legal entities belonging to the Group, as well as the results of the two sectors identified within the single SBU, in order to make uniform decisions regarding the allocation of resources and the verification of the performance for the entire SBU.

v) Listing charges

As part of the listing project, the Company and/or the selling shareholders support specific costs, such as (i) the fees that are recognized to the banks coordinating the offer, (ii) the fees that are paid to consultants, specialists and lawyers; (iii) other costs such as, for example, communication costs, printing costs of information prospectuses and out-of-pocket expenses. The transaction costs of a corporate transaction are accounted for as a deduction from equity to the extent they are marginal costs directly attributable to the equity transaction (capital increase) that otherwise would have been avoided. Transaction costs that are simultaneously linked to more than one transaction (listing of the company on the stock exchange) are allocated to the relevant transactions according to a rational allotment criterion consistent with similar transactions.

The criterion adopted by the company is to determine the ratio of the number of new shares issued during the IPO process to the total number of shares in issue that are listed, and to take the share of costs calculated by applying this ratio to the total incremental costs to equity and the difference to the income statement, net of bank fees of Euro 1,837 thousand, taken directly to equity.

During the year ended December 31, 2018 the Company incurred IPO costs of approximately Euro 7.3 million, of which Euro 4 million was expensed to the income statement and Euro 3.3 million accounted for as a reduction in equity.

1.7 Discretional valuations and significant accounting estimates

The preparation of the Financial Statements requires Directors to apply accounting standards and methodologies which, under certain circumstances, are based on assessments that require a high degree of subjectivity, on estimates based on historical experience and assumptions that are considered from time to time with reference to their reasonableness depending on the circumstances. The application of these estimates and assumptions affects the determination of the amounts shown in the financial statements, such as those shown in the balance sheet, in the income statement and in the cash flow statement, as well as the information provided. Estimates and assumptions are periodically reviewed and the effect of a change in an accounting estimate is immediately recognized through the income statement. The main processes of estimation and discretionary evaluation are related to the recognition and valuation of the financial statement items indicated below.

Period of depreciation of tangible assets and amortization of intangible assets and impairment test

Depreciation and amortization of assets with definite useful life of tangible assets and intangible assets and the forecast data used for the purposes of impairment tests require a discretionary valuation by the directors, which is revised at each reporting date in order to verify that the amounts recorded are representative of the best estimate of costs that may be incurred by the Group and, if significant changes are detected, the amounts are reviewed and updated.

With regard to the impairment test, reference should be made to the paragraph “Impairment of assets” below in this report.

Legal proceedings

The Company is a party to various legal proceedings concerning claims for damages related to operations, tax, labour law or other contractual relations. These disputes are subject to many uncertainties, and the outcome of the individual positions is not predictable with certainty. Moreover, they often derive from complex legal problems subject to different degrees of uncertainty.

A provision is made in relation to a dispute or threat if the loss is probable and there will be an outflow of funds and when the amount can be reasonably estimated. If an outflow of funds becomes probable, but the amount cannot be estimated, this fact is reported in the notes.

Since these provisions are estimates, the resolution of some of these positions may require the Company to make payments in excess of the amounts provisioned or may require the Company to make payments in an amount that could not reasonably be estimated. The Company monitors the status of legal proceedings and regularly consults with legal and tax experts. Therefore, provisions for legal proceedings of the Company may change as a result of future developments on these matters.

Business combinations

Accounting for business combinations entails allocating the difference between purchase cost and net carrying amount to the assets and liabilities of the acquired business. For the majority of assets and liabilities this difference is allocated by recognizing the assets and liabilities at fair value. If positive, the unallocated portion is recognized as goodwill. If negative, it is recognized in the income statement. The Group bases its allocations on available information and, for the more significant business combinations, on external appraisals.

Deferred tax assets

Deferred tax assets are recorded against deductible temporary differences between the values of the assets and liabilities recorded in the financial statements compared to the corresponding tax amount and the tax losses carried forward, up to the amount that future assessable income is probable against which these losses may be utilised. A discretionary assessment is required of the directors to determine the amount of deferred tax assets that can be accounted for, which depends on the estimate of probable timing and the amount of future taxable profits.

Liabilities for employee benefits (employee severance indemnity - “TFR”) and provisions to the supplementary indemnity provision

The evaluation of the severance indemnity is carried out using actuarial valuations. The actuarial valuation requires the development of assumptions about discount rates, future salary increases, turnover and mortality rates. Due to the long-term nature of these plans, these estimates are subject to uncertainty.

Value adjustments on receivables

Value adjustments on receivables represent the best possible estimate made by management, based on the information held at the date of preparation of the financial statements

The estimates and assumptions are made by the directors with the support of the company departments and, when appropriate, of independent specialists and are reviewed periodically.

1.8 Accounting standards issued but not yet in force

The accounting standards, amendments and interpretations not adopted in advance for the year ended December 31, 2018 governed facts and cases that do not have significant effects on the balance sheet, income statement, cash flow statement and the information contained in the consolidated financial statements.

The Company is assessing the impact of the modifications, amendments and interpretations to the approved accounting standards not adopted early or in the process of being approved.

Set out below are the standards and interpretations which, at the date of preparation of the financial statements of the Company, had already been issued and not adopted in advance:

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 Leasing, IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating leases - Incentives and SIC 27 Evaluating the substance of transactions in the legal form of a lease. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leasing and requires lessees to recognise all leasing contracts in the financial statements on the basis of a single model similar to that utilised for recognising finance leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by lessees - leasing contracts with low value (for example personal computers) and short-term lease contracts (for example contracts with expiry within 12 months or less). At the initial date of the lease contract, the lessee records a liability against the payments (the leasing liability) and an asset which represents the right to the use of the underlying asset for the duration of the contract (the right to use an asset). The lessees must separately record the expenses for interest on the leasing liabilities and the amortisation of the right to use an asset.

The lessees must also remeasure the leasing liabilities on the occurrence of certain events (e.g. change in the lease contract conditions, change in the future lease payments resulting from a change in an index or rate utilised to determine these payments). The lessee will generally recognise the amount of the remeasurement of the leasing liability as an adjustment to the right to use the asset.

The accounting required by IFRS 16 for lessees is substantially unchanged compared to the current accounting under IAS 17. The lessees will continue to classify all leases utilising the same classification principle as per IAS 17 and distinguishing between two types of leases: operating leases and finance leases.

IFRS 16 requires from lessors and lessees greater disclosure compared to IAS 17.

IFRS 16 will enter into force for the periods beginning January 1, 2019 and thereafter. Advance application is permitted, but not before the entity has adopted IFRS 15. A lessee may choose to apply the standard utilising a fully retrospective approach or a modified retrospective approach. The transitory provisions within the standard permit some options.

The Company has decided to adopt the simplified transition model and opted to apply the Standard to contracts previously identified as leases under IAS 17 and IFRIC 4. Accordingly, it will not apply the Standard to contracts that were not previously identified as leases under IAS 17 and IFRIC 4. In 2018, the Company undertook a detailed analysis of the impacts of IFRS 16. In short, the introduction of the new Standard does not have any impact on the Company's income statement, cash flows or business in 2018. However, in 2019 and future periods it will have a significant impact on the way in which the assets, liabilities, costs and cash flows associated with lease contracts are presented. The values resulting from the application of the new Standard are in the process of being calculated.

Interpretation IFRIC 22 Foreign currency transactions and advance consideration

The interpretation clarifies that, when defining the spot exchange rate to be used for the initial recognition of the related asset, costs or revenues (or part of these) at the time of derecognition of a non-monetary asset or a non-monetary liability relating to advances on fees, the transaction date is the date on which the entity initially recognizes the non-monetary asset or the non-monetary liability relating to advances on fees. In the case of multiple payments or advances, the entity should define the transaction date for each payment or advance on consideration. This Interpretation had no impact on the Group consolidated financial statements for the year.

Amendments to IAS 40 Changes in the allocation of investment property

The amendments clarify when an entity should transfer a building, including buildings under construction or development within or outside the Property investments account. The amendment establishes that a change of use occurs when the building satisfies, or ceases to satisfy, the definition of property ownership and demonstrates a change in use. A simple change in management's intentions with regards to the use of the building is not considered as proof of a change in use. These amendments did not have any impact on the Group consolidated financial statements.

Amendments to IFRS 2 -Classification and recognition of share-based payments

The IASB issued amendments to IFRS 2 Share-based payments which concern three principal areas: the effects of a vesting condition on the measurement of a cash-settled share-based payment; the classification of an equity-settled share-based payment settled net of withholding tax obligations; the accounting where a change in the terms and conditions of an equity-settled share-based payment changes its classification from cash-settled to equity-settled. On its adoption, the entities must apply the amendments without restating the previous years, but the retrospective application is permitted if chosen for all three of the amendments and other criteria are satisfied. The Group accounts for cash-settled share-based payment transactions according to the approach clarified in the above amendments. The Group has not undertaken share-based payment transactions settled net of obligations for withholding tax, nor has it amended the terms and conditions of its share-based payment transactions. Therefore, these amendments did not have any impact on the Group consolidated financial statements.

Amendments to IFRS 4 - Joint application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts

The amendments concern the problems arising from the adoption of the new standard on financial instruments, IFRS 9, before the adoption of IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities that issue insurance contracts: a temporary exemption in the application of IFRS 9 and the overlay approach. These amendments are not significant for the Group.

Amendments to IAS 28 Equity Investments in Associates and Joint Ventures - Clarification that recognition of an equity investment at fair value through profit or loss is a choice that applies to an individual equity investment

The amendments clarify that an entity that is a venture capital organization, or another qualified entity, may decide, at the time of initial recognition and with reference to the individual investment, to evaluate its investments in associates and joint ventures at fair value recognized in the Income Statement. Where an entity not qualifying as an investment entity has a holding in an associate or joint venture which is an investment entity, the entity may, on applying the equity method, decide to maintain the fair value measurement applied by the investment entity (whether an associate or joint venture) in measuring its holdings (in the associate or joint venture). This choice is made separately for each associate or joint venture that is an investment entity on the last (in terms of occurrence) of the following dates: (a) initial recognition of the investment in the associate or joint venture that is an investment entity; (b) in which the associate or joint venture becomes an investment entity; and (c) in which the associate or joint venture that is an investment entity becomes for the first time the parent company. These amendments did not have any impact on the Group consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of Short-Term Exemptions for First-Time Adopters

The short-term exemptions under paragraphs E3-E7 under IFRS 1 have been deleted as they have fulfilled their scope. These amendments did not have any impact on the Group consolidated financial statements.

Note 2 Goodwill

Goodwill breaks down as follows.

In Euro thousands	*At December 31*	*At December 31*
	2018	*2017*
Goodwill– CGU Rugani Hospital S.r.l.	6,936	6,936
Goodwill – CGU CMSR Veneto Medica S.r.l.	11,230	11,230
Goodwill – CGU Villa Von Siebenthal S.r.l.	2,957	2,957
Goodwill – CGU Gruppo Fides Medica	17,646	17,646
Goodwill – CGU Casa di Cura Prof. Nobili S.p.A.	46	46
Total Goodwill	**38,815**	**38,815**

Goodwill consists of the difference between the fair value of the amount transferred and the net value of the amounts at the acquisition date of the identifiable assets acquired and of the liabilities assumed identifiable at fair value.

Verification of impairment of goodwill and intangible assets with indefinite useful life (impairment test)

Goodwill and accreditation acquired through business combinations were allocated for the purpose of verifying the impairment loss of the cash-generating units identified for the Group at the level of the individual entity, without prejudice to the recently-acquired Fides Medica Group identified as a single CGU.

Despite the absence of indicators of impairment, the Group carried out an impairment test on the items subject to annual review in 2018.

On the basis of the findings of the impairment test, GHC S.p.A. did not recognize impairment losses on goodwill in either the current or previous periods.

Evaluation system

The estimate of the value in use is made by discounting the operating cash flows, i.e. the cash flows available before the repayment of financial payables and the remuneration of the shareholders (Unlevered Discounted Cash Flow or UDCF). Operating cash flows are discounted at a rate equal to the weighted average cost of debt and equity (Weighted Average Cost of Capital or WACC), in order to obtain the value of the company’s operating capital (Enterprise Value).

The prospective cash flows used in the impairment test are developed for a time period of 3 years with a terminal value forecast, the cash flows utilised derive from the 2018-2021 Business Plan approved by the Board of Directors on June 27, 2018 and are developed by referring to the operating EBITDA expected net of taxes and less the contribution of fixed assets and working capital. The assumptions are consistent with the past actual results and the historical trend of the reference market. The growth rate *g* used to calculate the terminal value is 0.

The discounting rate of cash flows (WACC) used for the impairment tests is equal to 6.03% at December 31, 2018 and presents the following main parameters:

- *Risk free rate*: the rate used is 2.76% for 2018; this value corresponds to the yield on Italian ten-year government securities measured as a monthly average over the last twelve months (Source: Bloomberg);

- *Beta*: for the estimation of the non-differentiable systemic risk coefficient, reference was made to the inputs elaborated by international practice (Source: Bloomberg), taking into consideration a group of listed companies operating in the same sector of the company to be valued, thus calculating an appropriate industry average beta, equal to 0.53% at December 31, 2018;

- *Market premium*: for the purposes of the analysis, a rate of 6.0% was used for all three years. This parameter is in line both with the results of long-term analyses and with professional practice;

- *Premium for additional risk:* prudentially, an increase in the cost of risk capital equal to 1.0% was applied at December 31, 2018 for the CGUs to take into account the reduced size compared to the companies used as comparable;

- With reference to the *cost of the debt (Kd)* for the CGUs that present outstanding loans, reference was made to the effective interest rate applied by the banking system on the same loans i.e. the twelve-month average ten-year EUR IRS (interest rate swap) (Source: Bloomberg) with a spread of 2.24 percentage points;

- *Financial structure:* consistently with that done for the purposes of the calculation of the beta, we applied to the cost of risk capital and the cost of debt capital, weights determined using a market D/E representative of the average financial structure of the sample of comparable listed companies previously identified, equal to 0.6 for December 31, 2018. The w_e and w_d weights for 2018 were 59.98% and 40.02%, respectively.

CGU Rugani Hospital S.r.l.

The recoverable value of the cash-generating unit Rugani Hospital S.r.l., healthcare facility operating in Siena, was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of three years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

CGU CMSR Veneto Medica S.r.l.

The recoverable value of the cash-generating unit CMSR Veneto Medica S.r.l. clinic operating in Vicenza, was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of three years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

CGU Villa Von Siebenthal S.r.l.

The recoverable value of the cash-generating unit Villa Von Siebenthal S.r.l., social-care healthcare facility operating in Genzano Romano, was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of three years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

CGU Fides Medica Group

The recoverable value of the cash-generating unit of the Fides Medica Group was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of three years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

CGU Casa di Cura Prof. Nobili S.p.A.

The recoverable value of the cash-generating unit of the Fides Medica Group was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of three years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

Sensitivity to changes in assumptions

The Group prepared sensitivity analyses on the results of the test with respect to changes in the basic assumptions that affect the value in use of the CGUs, thus assuming a change in the WACC of +/-1, resulting in a reduction in the CGUs' prospective EBITDA of +/-5%. This would only entail an impairment loss on the CGUs Villa Von Siebenthal S.r.l. and Fides Medica Group.

The equilibrium WACC for each CGU with reference to 2018 is presented below.

%	Equilibrium value WACC	
	At December 31, 2018	At December 31, 2017
Goodwill – CGU Rugani Hospital S.r.l.	14.5%	13.6%
Goodwill – CGU CMSR Veneto Medica S.r.l.	9.7%	9.7%
Goodwill – CGU Villa Von Siebenthal S.r.l.	6.9%	6.7%
Goodwill – CGU Gruppo Fides Medica	7.0%	6.6%
Goodwill – CGU Casa di Cura Prof. Nobili S.p.A.	23.3%	20.2%

Note 3 Other intangible assets

The breakdown of the item Other intangible assets at December 31, 2018, compared with the same values at December 31, 2017, is as follows:

In Euro thousands	*At December 31*	*At December 31*	*Change*
	2018	*2017*	*2018 vs 2017*
Concessions, licenses, trademarks & similar rights	16	4	12
Accreditation	13,528	13,528	-
Software	491	712	(221)
Other intangible assets	14	32	(18)
Assets in progress and advances	**3**	**-**	**3**
Total other intangible assets	**14,053**	**14,276**	**(223)**

The table below shows the movements in individual items of Intangible assets during the period ended December 31, 2018.

In Euro thousands	*Concessions, licenses, trademarks & similar*	*Software*	*Accreditation*	*Other intangible assets*	*Assets in progress and payments on account*	*Total*
Net value at December 31, 2017	**4**	**712**	**13,528**	**32**	**-**	**14,276**
Increases in year	19	89	-	3	3	114
Net decreases	-	-	-	(3)	-	(3)
Amortisation & Depreciation	(7)	(309)	-	(17)	-	(334)
Net value at December 31, 2018	**16**	**491**	**13,528**	**14**	**3**	**14,053**

Concessions, licenses, trademarks & others

"Concessions, licenses, trademarks and similar rights" amount to Euro 16 thousand at December 31, 2018, up on December 31, 2017 due to the increase of Euro 19 thousand and amortization for the period of Euro 7 thousand.

Software

The item Software, amounting to Euro 491 thousand at December 31, 2018, refers to the applications used by the administrations and for the healthcare activities of the Group companies.

In 2018, the Group made investments in software of Euro 89 thousand, mainly attributable to Hesperia Hospital S.p.A. Amortization of the item for the period amounted to Euro 309 thousand.

Accreditation

The item Accreditation, amounting to Euro 13,528 thousand at December 31, 2018, mainly includes the surplus deriving from the acquisition of the Fides Medica Group and Casa di Cura Prof. Nobili S.p.A. The surplus of purchase costs on the fair value of the portion attributable to the Group is identifiable as Euro 8,257 thousand for the net assets attributable to the accreditation of the Fides Medica Group at the acquisition date and for the amount of Euro 4,942 thousand to the accreditation of Casa di Cura Prof. Nobili S.p.A.

Accreditation activities relate to the administrative process by which the Group's facilities qualify as fit to provide healthcare and social-care services on behalf of the Regional Health Service (SSR). Institutional accreditation is issued by the Region and is conditional on continuing satisfaction of the technological, infrastructural and personal requirements defined by national and regional provisions.

The fair value of the accreditation has been estimated by applying a technique based on the discounting of results deriving from "in-agreement" services (multi-period excess earnings technique). The fair value measurement is based on significant inputs that are not observable on the market. The fair value estimate is based on the following assumptions:

- The prospective cash flows, developed for a time period of three years with a terminal value forecast, derive from the 2018-2021 Business Plan and are developed taking as reference the EBITDA expected only for the agreement part net of taxes and less the contribution of fixed assets and working capital.

- These assumptions are consistent with the projections of incoming and outgoing cash flows, taking into account the past actual results and the historical trend of the reference market.

- The base rate used is 6%, increased by 2 percentage points to take into account the fact that single intangible assets are being evaluated and not the entire company complex.

- The growth rate g is 0.

- The terminal value is determined starting from the EBITDA of the last year of the plan, prudentially reduced by 50%.

In relation to the impairment tests carried out annually, they were carried out jointly with the tests on the goodwill of the respective companies (as the accreditations were allocated to the CGUs represented by the respective clinics). Sensitivity analyses were also performed, simulating a WACC variation of +/-1% and a reduction in the CGU's prospective EBITDA level of +/-5%. This would only entail an impairment loss on the CGUs Villa Von Siebenthal S.r.l. and Fides Medica Group.

Other intangible assets

The item, which amounted to Euro 14 thousand at December 31, 2018, includes residual categories of assets; the change for the period was primarily due to the amortization for the year.

Work in progress & advances

The item in question, which amounted to Euro 3 thousand, includes advances to software suppliers for the implementation of new applications.

Note 4 Property, plant and equipment

The table below shows the breakdown of Property, plant and equipment at December 31, 2018, compared with December 31, 2017.

In Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Land & Buildings	75,849	78,536	(2,687)
Leasehold improvements	1,353	1,403	(50)
Plant and machinery	2,062	2,430	(368)
Industrial and commercial equipment	7,602	6,601	1,001

Other assets	836	939	(103)
Work in progress & advance payments	5,443	41	5,402
Total	**93,145**	**89,950**	**3,195**

The following tables show the changes in the item in question for the period ended December 31, 2018.

In Euro thousands	**Land & buildings**	**Leasehold improvements**	**Plant and Machinery**	**Industrial & commercial equipment**	**Other Assets**	**Assets in progress and advances**	**Total**
Net value at December 31, 2017	**78,536**	**1,403**	**2,430**	**6,601**	**939**	**41**	**89,950**
Increases in year	367	75	122	2,870	331	5,402	9,167
Net decreases	-	-	-	(133)	(5)	-	(138)
Adjust. to values	-	-	-	-	-	-	-
Reclassifications due to transfers	-	-	-	-	-	-	-
Depreciation	(3,054)	(125)	(490)	(1,736)	(429)	-	(5,834)
Net value at December 31, 2018	**75,849**	**1,353**	**2,062**	**7,602**	**836**	**5,443**	**93,145**

Land & Buildings

The item mainly includes the properties owned by the nursing homes and amounted to Euro 75,849 thousand at December 31, 2018, compared to Euro 78,536 thousand in 2017.

The change in the account was due to depreciation for the period of Euro 3,054 thousand and increases of Euro 367 thousand relating to non-routine maintenance work to keep up the facilities' quality standards, of which Euro 108 thousand attributable to Casa di Cura Villa Berica, Euro 68 thousand to Hesperia Hospital and, finally, Euro 87 thousand to L'Eremo di Miazzina.

Leasehold improvements

The item was subject to a decrease of Euro 125 due to amortization for the period and increases of Euro 75 thousand for work yielding long-term benefit, mainly attributable to the Fides Group.

Plants & equipment

The item increased by Euro 122 thousand due to the new investments in 2018 and decreased due to the amortization for the period of Euro 490 thousand.

Industrial & commercial equipment

The item Industrial and commercial equipment amounted to Euro 7,602 thousand at December 31, 2018, compared to Euro 6,601 thousand at December 31, 2017.

During the year 2018, investments totalling Euro 2,870 thousand were made in relation to the purchase of specific healthcare equipment used for medical services provided mainly by: Hesperia Hospital Modena S.p.A. for Euro 1,934 thousand, primarily attributable to the purchase of a next-generation Da Vinci robotic system, Casa di Cura Villa Berica S.p.A. for Euro 373 thousand and, finally, CSMR for Euro 91 thousand. The item also decreased by Euro 1,736 thousand due to the amortization for the period.

The Group has accounted for the lease according to the financial method, in accordance with international accounting standard IAS 17. Its net book value at December 31, 2018 amounted to Euro 1,089 thousand, and the change on the previous period was due to the decrease resulting from amortization. In 2018, no new financial lease contracts were stipulated, and there are no restrictions imposed by the aforementioned contracts, such as those concerning dividends, new indebtedness and other lease transactions.

Other Assets

The item Other assets mainly consists of cars, transport vehicles, electronic machines, furniture and furnishings. The account amounts to Euro 836 thousand at December 31, 2018, a net decrease of Euro 103 thousand on 2017. In 2018 total investments amounted to Euro 331 thousand and mainly related to: (i) for Euro 71 thousand to the company Rugani Hospital S.r.l., primarily relating to furniture and furnishings purchased in relation to the entry into operation of a new 40 beds and the purchase of motor vehicles; (ii) for Euro 32 thousand to Hesperia Hospital Modena S.p.A. relating to furniture and furnishings; and (iii) for Euro 62 thousand to the company Casa di Cura Villa Berica S.p.A. Amortization for the period amounted to Euro 429 thousand.

Assets in progress and advances

At December 31, 2018, the item amounted to Euro 5,443 thousand, compared with a value of Euro 41 thousand the previous year. The increase in the item was mainly due to the following facilities:

- Eremo di Miazzina S.p.A., which on August 13, 2018 closed the purchase of the property adjacent to Istituto Raffaele Garofalo previously used as a shopping center. The purpose of this purchase was to expand Istituto Raffaele Garofalo, through the appropriate renovation work, in order to improve hospital rehabilitation service, in addition to expanding and diversifying accredited specialist outpatient services. At December 31, 2018 the investment amounted to Euro 3,686 thousand;
- Ro. E. Mar S.r.l., (a member of the Fides Group) which on December 24, 2018 entered into a purchase agreement for a property located in Genoa previously used as a school. Once the renovation work has been completed, the property is expected to become operational by 2020 and will have 70 beds intended for social care services on an exclusively private basis (the Santa Maria Project). The consideration and directly attributable transaction costs amounted to Euro 1,724 thousand.

Note 5 Investment properties

Investment properties amounted to Euro 1,027 thousand at December 31, 2018, down by Euro 38 thousand on the previous year due to depreciation for the period and by Euro 2 thousand due to work increasing the value of the asset.

The table below shows the breakdown of investment properties at December 31, 2018.

In Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Investment property	1,027	1,063	(36)
Total investment properties	**1,027**	**1,063**	**(36)**

The Group's investment properties primarily refer to the apartments owned by L'Eremo di Miazzina S.p.A. of Euro 817 thousand, by Hesperia Hospital Modena S.p.A. of Euro 43 thousand and by FI.D.ES. Medica S.r.l. for Euro 167 thousand. These are properties not intended for industrial use or for use in the Group's core business, held specifically for investment purposes. Accordingly, pursuant to IAS 40, such investment properties have been classified as investments and measured according to the cost model. The value recognized is represented by historical cost, less cumulative depreciation charges.

The useful life of the Group's investment properties is 33 years, and depreciation is applied on a straight-line basis.

The assets have not been let. Accordingly, neither rent revenue nor direct operating costs are expected.

There are no restrictions on the Group's ability to monetize its investment properties, nor are there any contractual obligations to purchase, build or development investment properties or carry out maintenance, repairs or improvements.

At December 31, 2018 the said properties had a fair value of Euro 1,552 thousand in the case of the property owned by L'Eremo di Miazzina S.p.A., of Euro 122 thousand in the case of the property owned by Hesperia Hospital Modena S.p.A. and of Euro 171 thousand in the case of the property owned by Medica S.r.l.

See Note 39 for information on the fair value hierarchy for investment properties. It should be noted that:

- measurement is classified to Level 3 of the fair value hierarchy, meaning it is based on unobservable inputs obtained by estimating market value according to the average values in the Italian Agency of Revenue's O.M.I. database and the Borsino Immobiliare database (2018) for properties similar to those being measured;
- it should be noted that the fair value described above is greater than the current value in use, approximated by the item's net book value.

Note 6 Equity investments

Equity investments amounted to Euro 878 thousand at December 31, 2018, compared with a balance of Euro 788 thousand for the previous year. The item in question refers to equity investments in associates of Euro 847 thousand and equity instruments (classified as at fair value through profit and loss) of Euro 31 thousand.

Investments in associates

The table below contains a breakdown of investments in associates at December 31, 2018.

In Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Il Fiocco S.c.a.r.l.	847	739	108
Total investments in associates	**847**	**739**	**108**

The equity investments in associates refer solely to Il Fiocco S.c.a.r.l., in which the Group holds a 40% shareholding through the subsidiary Fides Medica S.r.l. (Fides Group) by virtue of the acquisition completed in 2017. The change in the item compared to the previous year of Euro 108 thousand was due to the share of the profit for the year of Euro 172 thousand, adjusted for the dividends received by the subsidiary Fides Medica of Euro 92 thousand, while also considering that the definitive financial statements for the year ended December 31, 2017 approved by the Shareholders' Meeting presented a greater share of profit of Euro 28 thousand.

The associated company's key financial position and performance data are set out below:

Balance sheet in Euro thousands	At December 31
	2018
Current Assets	2,261
Non-current assets	444
Current liabilities	(1,242)
Non-current liabilities	(611)
Shareholders' Equity	**852**
Shareholders' equity attributable to the Group - 40%	341
Goodwill	**506**
Carrying value of the Group's investment	**847**

Income statement in Euro thousands	At December 31
	2018
Revenues	5,877
Cost of Sales	(4,865)
Amortisation, depreciation, and write-downs	(300)
Financial charges	(7)
Profit before taxes	705
Income taxes	(274)
Net profit from continuing operations	**431**
Other comprehensive items which may be subsequently reclassified to profit/(loss) for the year net of income taxes	-
Other comprehensive items which may not be subsequently reclassified to profit/(loss) for the year net of income taxes	-
Other comprehensive income from continuing operations	**431**
Net profit attributable to the Group	**172**

At December 31, 2018 the associated company did not have any contingent liabilities or commitments.

Capital instruments

A breakdown of equity investments is presented below.

In Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Banca Valpolicella Benaco Coop.	5	5	-
C.O.P.A.G. S.p.A.	1	1	-
CAAF Emilia Centrale	3	3	-
Poliambulatorio Exacta S.r.l.	11	11	-
Ottica Modenese	11	11	-

SI4Life SCARL	-	17	(17)
Other Consortiums	-	1	(1)
Total share capital instruments	**31**	**49**	**(18)**

The balance of the item consists of equity investments in companies over which Hesperia Hospital Modena S.p.A., Casa di Cura Villa Garda S.p.A. and FI.D.ES. Medica S.r.l. do not exercise either a dominant or a significant influence, and which in any event are less than one-fifth of share capital. The purchase cost approximates the fair value, since there is no active market for the equity interests in question, and the company plans to recover the entire purchase price when it sells them.

It should be noted that (i) in the case of the equity investment in Poliambulatorio Exacta S.r.l., the gross book value of which is Euro 63 thousand, the total impairment loss of Euro 52 thousand recognized in previous years has been maintained on a prudential basis; and (ii) the equity investment held by F.I.D.E.S. Medica S.r.l. in SI4Life S.c.a.r.l. was fully impaired in the first half of 2018, for Euro 7 thousand, and the loan granted to the investee SI4Life S.c.a.r.l. was repaid in full for Euro 10 thousand.

Note 7 Other non-current financial assets

"Other non-current financial assets" amounted to Euro 1,542 thousand at December 31, 2018, up by Euro 1,486 thousand. The increase was primarily due to the advance payment of Euro 1,500 thousand made on December 21, 2018 following the execution of the preliminary agreement for the purchase of 100% of Poliambulatorio Dalla Rosa Prati S.r.l., which in turn owns 100% of Dalla Rosa Prati Grossi S.r.l., owner of the building in which the company operates and at which the company is headquartered. Since this contract provides for various conditions precedent for the benefit of the seller, which were met in January 2019, it only entered into legal effect, with the resulting transfer of title to the equity interest, in the following year. Accordingly, GHC S.p.A. acquired control of the company following closing on February 5, 2019. The account also includes guarantee deposits paid by Group companies to third parties of approximately Euro 42 thousand.

The following table presents a breakdown of the other non-current financial assets at December 31, 2018 and December 31, 2017.

In Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Advance payments for equity interests in Dalla Rosa Prati	1,500	0	1,500
Guarantee Deposits	42	47	(5)
Financial receivables from others	0	9	(9)
Total other non-current financial assets	**1,542**	**56**	**1,486**

Note 8 Other non-current assets

The item "Other non-current assets" amounted to Euro 1,002 thousand at December 31, 2018 and included Euro

991 thousand of receivables due beyond one year relating to the tax on the realignment of the accounting and tax values of the goodwill recognized following the reverse merger of Garofalo Veneta S.r.l. into CMSR Veneto Medica S.r.l. in 2014.

The following table presents a breakdown of the other non-current assets at December 31, 2018 and December 31, 2017.

In Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Realignment substitute tax credits	991	1,067	(76)
Other receivables	11	17	(6)
Total other non-current assets	**1,002**	**1,084**	**(82)**

Note 9 Deferred tax assets and liabilities

Deferred tax assets and liabilities

The composition of "Deferred tax assets and liabilities" at December 31, 2018, compared with the situation at December 31, 2017, is presented below.

In Euro thousands	At December 31	At December 31
	2018	2017
Deferred tax assets:		
within 1 year	-	-
over 12 months	3,250	3,326
Total	**3,250**	**3,326**
Deferred tax liabilities:		
within 1 year	-	-
over 12 months	(8,385)	(7,642)
Total	**(8,385)**	**(7,642)**
Net balance	**(5,135)**	**(4,316)**

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax losses and unused tax credits can be utilised.

The following table presents the movements in deferred tax assets and liabilities for the first half of 2018 and the year ended December 31, 2017.

In Euro thousands	At December 31	At December 31
	2018	2017
Net opening balance	**(4,316)**	**(190)**
Credit / (Debit) to the income statement	(614)	(527)
Other changes	(64)	(3,587)
Credit / (Debit) to equity	(141)	(12)
Net closing balance	**(5,135)**	**(4,316)**

Net deferred tax assets and liabilities amounted to Euro 5,135 thousand at December 31, 2018.

The breakdown of net deferred taxes at December 31, 2018 is illustrated below:

	Balance sheet			Consolidated Comprehensive Income Statement		Consolidated Income Statement	
DESCRIPTION *in Euro thousands*	31.12.2018	Other changes	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Accreditation and buildings gross-up	(4,708)	-	(4,767)	-	-	59	59
Amortisation of goodwill	(2,004)	-	(1,289)	-	-	(715)	(740)
Provision for risks and charges	1,375	-	1,523	-	-	(148)	292
Tax Losses	389	-	159	-	-	230	(211)
Doubtful debt provision	356	-	109	-	-	247	60
Uncollected interest on arrears	(68)	-	(68)	-	-	-	-
Derivative instruments	7	-		-	-	-	(2)
IAS 40 adjustments - Depreciation	40	-	32	-	-	8	8
IAS 17 adjustments - Finance leases	(171)	-	(172)	-	-	1	(24)
IAS 19 adjustments - Employee leaving indemnity	74	-	113	59	(12)	(98)	(11)
Equity method	(10)	-	(8)	-	-	(2)	(8)
Other movements	(415)	(64)	45	(200)	-	(196)	50
Total	**(5,135)**	**(64)**	**(4,316)**	**(141)**	**(12)**	**(614)**	**(527)**
Deferred tax assets	3,250	(64)	3,326	-	-	(12)	(55)
Deferred tax liabilities	(8,385)	-	(7,642)	(141)	-	(602)	582
Net deferred tax assets/liabilities	**(5,135)**	**(64)**	**(4,316)**	**(141)**	-	**(614)**	**(527)**

Note 10 Inventories

The following table breaks down inventories at December 31, 2018, compared with December 31, 2017.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Raw material, ancillaries and consumables	2,218	2,352	(134)
Inventories	**2,218**	**2,352**	**(134)**

Inventories amounted to Euro 2,218 thousand at December 31, 2018 and to Euro 2,352 thousand at December 31, 2017. The account, which consists solely of raw materials, supplies and consumables, refers to the materials used in the clinical and hospital activities of the Group's companies.

Note 11 Trade receivables

Trade receivables amounted to Euro 35,239 thousand at December 31, 2018, compared with Euro 38,399 thousand at December 31, 2017. The breakdown is reported below.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Receivables – private customers	4,551	6,079	(1,528)
Receivables – local health authorities	34,427	34,896	(469)
Other receivables	639	292	347
Bad debt provision	(4,378)	(2,868)	(1,510)
Total trade receivables	**35,239**	**38,399**	**(3,160)**

Trade receivables refer solely to provisions rendered within Italy and there are no receivables due beyond twelve months. The decrease in the item concerned of Euro 3,160 thousand may be ascribed to both an improvement in average collection times, above all in the regions of Veneto and Tuscany, and to prudential provisions for estimated losses, relating in particular to the Rugani Hospital and Hesperia Hospital facilities, as described in further detail in the comments on write-downs recognized to the income statement.

As shown by the above table, the decrease in receivables was due to both receivables from private customers and local health authorities.

The following is a breakdown of movements in the doubtful debt provision with an indication of accruals and uses:

In Euro thousands	Dec 31, 2017	Accrual	Recl.	Release	Dec 31, 2018
Doubtful debt provision	**2,868**	**1,543**	**-**	**(33)**	**4,378**

The doubtful debt provision amounts to Euro 4,378 thousand and was up on the previous year due to the accrual for the period of Euro 1,543 thousand, of which Euro 760 thousand attributable to Hesperia Hospital Modena S.p.A. and Euro 775 thousand to Rugani Hospital. For further information, see Note 31 on write-downs.

IFRS 9 does not identify a specific approach for estimating expected losses. Accordingly, in view of the nature of its receivables, the Company has decided to apply a loss-rate approach, which consists of determining percent loss rates on a statistical basis as a function of the losses recorded over a twelve-month period and the residual lifetime of the receivables, and then adjusting these historical trends to take account of current conditions and future expectations. Consequently, the Company has divided its receivables portfolio into uniform risk classes and then determined a loss rate for each uniform portfolio thus identified on the basis of the historical default experience for each portfolio. The Company then updated the historical rates thus obtained to take account of current economic conditions and reasonable expectations regarding future economic conditions.

Note 12 Tax receivables

The table below shows the breakdown of tax receivables at December 31, 2018, compared with December 31, 2017.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Other receivables and current assets – tax receivables for IRES and IRAP refund applications	647	693	(46)
Tax receivables – IRES prepayment	1,709	383	1,326
Tax receivables – IRAP prepayment	13	25	(12)
Tax receivables – from tax consolidation	0	586	(586)
Tax receivables – other tax receivables	715	331	384
Total tax receivables	**3,084**	**2,018**	**1,066**

As shown in the above table, the balance of the account in question at December 31, 2018 primarily consists of: tax receivables arising from IRES and IRAP refund applications (Euro 647 thousand), total IRES and IRAP prepayments of Euro 1,722 thousand and other tax receivables of Euro 715 thousand, mainly the tax receivable for the scientific research activity carried out by Hesperia Hospital of Euro 602 thousand.

Tax receivables of Euro 3,084 thousand at December 31, 2018 were up by Euro 1,066 thousand on the balance of Euro 2,018 thousand from the previous year. The net increase in the account was chiefly due to: (i) the increase in the tax receivable arising mainly from the tax loss reported by GHC, owing primarily to the recognition of the IPO costs, and the taxable profit transferred by the subsidiaries to GHC S.p.A.; (ii) the reclassification of tax consolidation receivables of Euro 586 thousand to the account "Other receivables" owing to a different representation of the balance receivable, inasmuch as the company that prepares the tax consolidation for 2018 is GHC, given that Raffaele Garofalo SAPA ceased to exercise the control required by the tax code following the IPO process; and (iii) an increase in the account "other tax receivables" of Euro 384 thousand, of which approximately Euro 350 thousand attributable to the increased amount receivable for the scientific research activity conducted by Hesperia Hospital.

Note 13 Other receivables and current assets

Other receivables and current assets amounted to Euro 2,507 thousand at December 31, 2018, up by Euro 1,001 thousand on Euro 1,506 thousand at December 31, 2017, chiefly attributable to the account "Other tax receivables", the increase in which was due to the greater VAT receivable accrued to the Parent Company as a result of the incremental costs of the IPO process.

The changes in the account were as follows:

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Other receivables and current assets - from suppliers for payments on account	346	229	117
Other receivables and current assets - from others	461	508	(47)
Other receivables and current assets - from employees	7	5	2

Other receivables and current assets - from social-security institutions	25	13	12
Other tax receivables	1,033	167	866
Other receivables and current assets - prepayments and accrued income (non-financial)	635	584	51
Total other receivables and current assets	**2,507**	**1,506**	**1,001**

The account consists primarily of the following items:

(i) Euro 346 thousand due from suppliers for prepayments, of which Euro 133 thousand attributable to Rugani Hospital, Euro 189 thousand to Hesperia Hospital S.p.A. and Euro 24 thousand to Casa di Cura Prof. Nobili

(ii) Euro 461 thousand attributable to Villa Von Siebenthal S.r.l. for Euro 426 thousand. In view of the nature of its receivables, the Company has decided to apply a loss-rate approach, which consists of determining percent loss rates on a statistical basis as a function of the losses recorded over a twelve-month period and the residual lifetime of the receivables, and then adjusting these historical trends to take account of current conditions and future expectations. As previously mentioned, the impairment model introduced by IFRS 9 is based on the concept of forward-looking measurement (equal to zero), i.e. on the concept of "expected credit losses", whether calculated over twelve months (Stage 1) or the residual lifetimes of the instruments (Stage 2 and Stage 3), on the basis of the concept of a SICR compared to the date of origin of the instrument concerned. Under the expected credit loss model, losses must be recognized on the basis of objective evidence of decreases in value that have already occurred on the reporting date, but also of expectations of future declines in value that have yet to occur at the reporting date;

(iii) Euro 1,033 thousand, of which Euro 946 thousand attributable to the VAT receivable accrued in 2018 by the Parent Company, associated with services rendered by professionals in connection with the IPO process;

(iv) Euro 635 thousand relating to non-financial prepayments and accrued income, of which Euro 194 thousand attributable to Hesperia Hospital S.p.A., Euro 139 thousand to Casa di Cura Prof. Nobili, Euro 99 thousand to CMSR and Euro 65 thousand to Villa Berica.

Note 14 Other current financial assets

Other current financial assets amounted to Euro 135 thousand at December 31, 2018. The balance of the account consists primarily of financial prepayments and accrued income.

Note 15 Cash and cash equivalents

The changes in the account were as follows.

in Euro thousands	**At December 31**	**At December 31**	**Change**
	2018	**2017**	**2018 vs 2017**
Bank current accounts	92,164	22,544	69,620
Checks and cash	123	91	32
Total cash and cash equivalents	**92,287**	**22,635**	**69,652**

The amounts shown can be readily converted into cash and does not have a significant risk of change in value.

The GHC Group believes that the credit risk associated with cash and cash equivalents is limited because they primarily consist of deposits held with various national Italian banking institutions.

The above account is also subject to the general impairment rule and the loss rate approach has been used. However, in view of the fact that they are demand accounts, the expected losses over the 12 months and the expected losses of the useful life coincide.

The increase in cash and cash equivalents is primarily to be attributed to the completion of the process of listing on the Mercato Telematico Azionario ("MTA") organized and managed by Borsa Italiana S.p.A. the newly issued ordinary shares of the company, approved by the Board of Directors of Garofalo Health Care S.p.A. on July 31, 2018 and concluded on November 9, 2018.

In further detail, the shares subject to the offering derived from the divisible, paid share capital increase in cash, with exclusion of option rights, pursuant to Article 2441, paragraph 5, of the Italian Civil Code, for the purposes of the listing of the Shares on the MTA, to be reserved for subscription by institutional investors, approved by resolution of the Company's extraordinary Shareholders' Meeting on September 26, 2018, as supplemented by the Company's extraordinary Shareholders' Meeting on October 12, 2018. On October 29, 2018 the Company's Board of Directors, exercising the powers granted to it under the above motions, set the maximum number of shares subject to the Offering (including the greenshoe option) at 22,000,000, without par value and with full rights, at a price of Euro 3.34.

The subscription of the said 22,000,000 shares, which include the 2,000,000 shares issued on December 5, 2018 within the framework of the exercise of the greenshoe option, generated total proceeds of Euro 73,480,000.

See Note 19 Non-current financial payables – "Cash flow statement" for the composition of net financial position at December 31, 2018 and December 31, 2017.

Note 16 Shareholders' equity

Share capital

At December 31, 2018 share capital amounted to Euro 28,700 thousand, fully paid-in, and consisted of 82,000,000 ordinary shares without par value.

On July 31, 2018 the extraordinary Shareholders' Meeting resolved on an increase in share capital from Euro 300 thousand to Euro 21,000 thousand, through a partial use of the extraordinary reserve of Euro 20,700 thousand, to be allocated to capital, without the issue of new shares, and on a split of the Company's shares at a ratio of 200 new shares without par value per each old share without par value. As a result of this transaction, share capital increased to Euro 21,000 thousand, divided into 60,000,000 ordinary shares without par value.

Share capital also increased in 2018 due to the listing process on the Mercato Telematico Azionario ("MTA"), which concluded with the commencement of trading of the Company's shares on the MTA on November 9, 2018 and with the exercise of the greenshoe option on December 5, 2018. In further detail, a total of 22,000,000 shares were assigned in the institutional placement, of which 20,000,000 shares deriving from the divisible, paid share capital increase in cash, with exclusion of option rights, pursuant to Article 2441, paragraph 5, of the Italian Civil Code, approved by resolution of the Company's extraordinary Shareholders' Meeting on September 26, 2018, as supplemented by the Company's extraordinary Shareholders' Meeting on October 12, 2018, and the 2,000,000 shares subject to the greenshoe option. The new shares subscribed by the institutional investors at a price of Euro 3.34 each thus resulted in a further increase in share capital of Euro 7,700 thousand, whereas the remainder, of Euro 65,780 thousand, was entered to the account “Share premium reserve”, net of the IPO costs taken directly to the reserve of Euro 3,317 thousand. Consequently, shareholders’ equity benefited from an overall increase of Euro 70,163 thousand.

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	Every share has the right to one vote. 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 confers two votes. For further information, reference should be made to paragraph 2, letter d), of the Corporate Governance Report. The shareholders’ rights and obligations are as established in Articles 2346 *et seq.* of the Italian Civil Code and Article 7 of the By-laws with regard to multi-voting rights.

Shareholder	Direct shareholder	% of ordinary share capital	% of voting share capital
Garofalo Maria Laura[(1)]	Anrama S.p.A.	70.798%	80.373%
	Larama 98 S.p.A.		
	Garofalo Maria Laura		
Peninsula Capital II S.a.r.l.[(2)]	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

[(1)] Source: GHC Group
[(2)] Source: GHC Group and Consob; figures at December 31, 2018.

threshold indicated by Article 120, paragraph 2 of the CFA – date of registration and date of attainment of multi-vote rights.

Legal reserve

At December 31, 2018 the legal reserve amounted to Euro 60 thousand, due to the motion by the Shareholders' Meeting allocating part of the net profit for 2017 of Euro 20 thousand, in accordance with Article 2430 of the Italian Civil Code.

Other Reserves

The composition of the account "Other reserves" at December 31, 2018, with a comparison to December 31, 2017, is presented below.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Extraordinary reserve	4,398	15,378	(10,980)
Shareholder capital payments reserve	5,146	5,146	-
Conferment reserves	37,006	37,006	
IAS 19 actuarial effect reserve	(325)	(139)	(186)
Stock-grant plan reserve	485	0	485
First Time Adoption Reserve	2,320	2,320	-
Retained earnings	25,014	22,974	2,040
Share Premium Reserve	62,463		62,463
Other reserves	**136,507**	**82,685**	**53,822**

At December 31, 2018 the account "Other reserves" amounted to Euro 136,507 thousand and showed a net increase of Euro 53,822 thousand on December 31, 2017, primarily deriving from the combined effect of: (i) the recognition of the share premium reserve of Euro 62,463 thousand following the IPO process described above; the account includes Euro 65,780 thousand attributable to the recognition of the share premium, less Euro 3,317 thousand due to the effect on equity of costs associated with the IPO process incurred and taken to equity on the basis of the ratio of the number of new shares issued to the new of shares existing following the IPO process. The remaining IPO costs of Euro 4,037 thousand have been taken to the income statement, among the service costs entered to the account "Non-recurring charges"; (ii) a net decrease in the extraordinary reserve of Euro 10,980 thousand due to the combined effect of the allocation of Euro 10,205 thousand of the total net profit for the year ended December 31, 2017 of Euro 12,241 thousand, a decrease of Euro 20,700 thousand attributable to the free increase in share capital, in accordance with the motion of the extraordinary Shareholders' Meeting of July 31, 2018 and, finally, a decrease of Euro 485 thousand due to the formation of the reserve for the stock-grant plan pursuant to the resolution of the Board of Directors of GHC S.p.A. of September 26, 2018. At the time of preparation of these notes, the assignments had yet to be made, and accordingly no assessment was required under IFRS 2; and (iii) an increase in "Retained earnings" of Euro 2,040 thousand, reflecting the residual share of the net profit for the previous year of Euro 12,241 thousand, not entered to the extraordinary reserve indicated above and the legal reserve described above.

The IFRS first-time adoption reserve, amounting to a positive Euro 2,320 thousand at December 31, 2018, represents the effects on shareholders' equity of the transition to IASs/IFRSs by the Garofalo Health Care Group.

Minority interest capital and reserves

The minority-interest share of capital and reserves amounted to Euro 6,519 thousand at December 31, 2018, compared with Euro 6,544 thousand in the previous year.

Note 17 Employee Benefits

This account includes post-employment benefits measured according to an actuarial assessment based on the projected unit credit method performed by independent actuaries in accordance with IAS 19 – *Employee Benefits*.

The main demographic assumptions use by the actuary for the half-year are as follows:

- ✓ the RG48 probability of death figures provided by the General Accounting Office, by gender;
- ✓ for the pension period, it was assumed that the first pensionable requisites for the General Compulsory Insurance were achieved.
- ✓ a primary annual rate of termination of employment due to causes other than death of 9.36%;
- ✓ an annual advance probability of 2%, with a maximum of two repetitions of requests;
- ✓ a percent advance requested of 100.00%;
- ✓ The rate curve based on the effective rate of return on bonds denominated in euro issued by major companies rated AA or higher was used for the technical discounting rate.

The main financial assumptions adopted by the actuary were as follows:

	At December 31	**At December 31**
	2018	**2017**
Annual inflation rate	1.00%	1.25%
Annual real remuneration rate by category:		
Executives	2.60%	2.60%
Managers	1.70%	1.70%
White-collar	1.40%	1.40%
Annual increase in post-employment benefit	1.87%	2.02%

Movements during the year were as follows (in Euro thousands):

In Euro thousands	
December 31, 2017	**9,119**
Financial charges/(income)	29
Utilisations	(116)

Net actuarial gains/(losses) recognized in the year	245
Transfer in/(out)	(788)
Cost for service	280
Balance at December 31, 2018	**8,769**

In accordance with IAS 19 – *Employee Benefits*, an analysis of the sensitivity to changes in the main actuarial assumptions used in the calculation model must be performed. The following tables show, in absolute and relative terms, changes in the liability measured according to IAS 19 (DBO) in the event of a positive or negative change of 10% in revaluation and/or discounting rates. The results obtained in Euro thousands for the year ended December 31, 2018 are summarized in the following tables.

		Dec 31, 2018		
		Annual discount rate		
		-10%	***100%***	***10%***
Annual inflation rate	***-10%***	8,773	8,725	8,678
	100%	8,817	**8,769**	8,722
	10%	8,862	8,813	8,765

Note 18 Provision for risks and charges

"Provisions for risks and charges" amounted to Euro 6,150 thousand at December 31, 2018, compared with Euro 8,397 thousand at December 31, 2017, and primarily includes the provision for healthcare lawsuit risks of Euro 5,746 thousand (93% of the item).

A breakdown of "Provisions for risks and charges" at December 31, 2018, compared with December 31, 2017, is presented below:

in Euro thousands	**At December 31**	**At December 31**	**Change**
	2018	**2017**	**2018 vs 2017**
Provisions for risks and charges – End-of-service indemnity provisions	119	94	25
Provisions for risks and charges – Provisions for healthcare lawsuit risks	5,746	6,750	(1,004)
Provision for risks and charges – Other provisions for risks and charges	285	1,553	(1,268)
Total provisions for risks and charges	**6,150**	**8,397**	**(2,247)**

As shown in the above breakdown, the provision for healthcare risks decreased to Euro 1,004, primarily as a result of the releases resulting from the resolution of several healthcare claims. The efforts devoted to preventing health risks prior to the Group's IPO ensured that the amounts awarded at trial were less than the provisions set aside on the basis of the opinions provided by the legal counsel representing the facilities in the litigation.

The changes in the "Provisions for risks and charges" in the year ended December 31, 2018, compared with the changes in the year ended December 31, 2017, are presented below.

In Euro thousands	End-of-service indemnity provisions	Provisions for healthcare lawsuit risks	Other provisions for risks and charges	Total
Provisions for risks and charges at December 31, 2017	**94**	**6,750**	**1,553**	**8,397**
Provisions	61	375	50	**486**
Utilisations	(36)	(278)	(970)	**(1,284)**
Reversals	0	(1,101)	(348)	**(1,449)**
Provisions for risks and charges at December 31, 2018	**119**	**5,746**	**285**	**6,150**

Provisions for risks and charges include the total end-of-service indemnities for directors of Euro 119 thousand at December 31, 2018, compared with a balance of Euro 94 thousand at December 31, 2017. The change in the item includes the accruals by Rugani Hospital of Euro 20 thousand, by CMSR of Euro 16 thousand and by Casa di Cura del Prof. Nobili of Euro 25 thousand. Utilizations refer primarily to Rugani Hospital and Casa di Cura del Prof. Nobili (Euro 20 thousand and Euro 15 thousand, respectively).

Provisions for healthcare lawsuit risks amount to Euro 5,746 thousand, compared with Euro 6,750 thousand in the previous year, marking a net decrease of Euro 1,004 thousand. The item includes liabilities deemed probable in respect of damage claims brought by patients of the facilities in the course of their healthcare services, both under accreditation from the government and privately. The accrual has been based on a thorough analysis of the damage claims brought in and out of court and also takes account of events that have occurred at the reporting date, even though not reported, which the company, with the support of its legal counsel, has decided to recognize in its accounts. The change in the account was due to:

- Accruals of Euro 375 thousand, primarily (Euro 200 thousand) attributable to Eremo di Miazzina and Rugani Hospital (Euro 125 thousand). More specifically, the amount set aside by Eremo, on the basis of the opinion of its legal counsel, is intended to cover the damage claims brought in 2018 by the heirs of a patient of the facility. In the case of Rugani Hospital, the accrual of Euro 125 thousand is attributable to healthcare litigation.

- Utilizations of Euro 278 thousand, primarily referring to Hesperia Hospital Modena S.p.A. (Euro 205 thousand), as the result of the settlement of several healthcare disputes.

- Releases of Euro 1,101 thousand attributable to Hesperia Hospital. As mentioned above, this change was due to the resolution in the courts in December 2018 of two incidents involving Hesperia Hospital Modena for less than the provision set aside by the company, on the basis of its legal counsel, by virtue of management activity aimed primarily at preventing healthcare risks.

Other provisions for risks and charges amounted to Euro 285 thousand at December 31, 2018, compared with Euro 1,553 thousand at December 31, 2017, marking a net decrease of Euro 1,268 thousand.

The change in other provisions for risks was due to:

(i) Accruals of Euro 50 thousand, of which Euro 30 thousand attributable to Casa di Cura del Prof. Nobili and Euro 20 thousand attributable to Villa Von Siebenthal S.r.l.

(ii) Utilizations of Euro 970 thousand, of which: Euro 238 thousand attributable to Hesperia Hospital Modena S.p.A. following agreements reached with former employees; and Euro 659 thousand to

Casa di Cura Villa Berca following the issue of a credit note to local health authorities by the company due to an overrun of the budget for healthcare services rendered and paid for under accreditation from the government, for which the said authorities requested and obtained a refund;

(iii) Releases of Euro 348 thousand, of which Euro 212 thousand attributable to Hesperia Hospital Modena S.p.A. following agreements reached with former employees and Euro 136 thousand to Casa di Cura del Prof. Nobili.

Note 19 Non-current financial payables

Non-current financial payables include medium-to-long-term, floating-rate bank loans.

The following table presents the figures for the Garofalo Group's outstanding financial payables at December 31, 2018 and December 31, 2017.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Other non-current financial payables	228	6,744	(6,516)
Medium/long-term loans and borrowings	22,700	27,758	(5,058)
Total non-current financial payables	**22,928**	**34,502**	**(11,574)**

The composition of "Other non-current financial payables" at December 31, 2018, compared with the situation at December 31, 2017, is presented below.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Shareholder loan	42	6,401	(6,359)
Payables to leasing companies	179	343	(164)
Guarantee deposits	7	0	7
Total other non-current financial payables	**228**	**6,744**	**(6,516)**

The company's other non-current financial payables amounted to Euro 228 thousand at December 31, 2018, compared with Euro 6,744 thousand at December 31, 2017. The change in "Shareholder loans" in question was

attributable to the reclassification of the amount payable to Larama 98 S.p.A., due on June 30, 2019, to "Other current financial payables".

The item "Payables to leasing companies" refers to the recognition of the residual financial payable associated with leased assets accounted for according to the finance method and related primarily to the purchase of healthcare equipment. The account amounted to Euro 179 thousand at December 31, 2018, down by Euro 164 thousand due to the reclassification to short-term of the amounts set to come due by December 31, 2019.

"Medium/long-term loans and borrowings" amounted to Euro 22,700 thousand at December 31, 2018, compared with Euro 27,758 thousand at December 31, 2017. The decrease in 2018 in "Medium/long-term loans and borrowings" of Euro 5,058 thousand on the previous year may be attributed to the reclassification of the portion of the debt due in the following year.

The following tables present the loans contracted by Group companies in 2018 and the year ended on December 31, 2017, with a breakdown into amounts set to come due within and beyond 12 months.

Description	Annual interest rate at signing	Maturity	Balance at December 31, 2018	December 31, 2017
	%		in Euro thousands	
MPS – Antonveneta	3.30%	Apr 10, 19	197	591
Carige	4.05%	Dec 31, 22	4,841	5,913
Banca Popolare di Novara loan no. 7054702	Euribor 3m base 365	Dec 31, 24	645	748
Banca Popolare di Novara loan no. 2902709	Euribor 3m base 365	Mar 31, 18	-	76
Banca Popolare di Novara loan no. 03312817	Euribor 3m base 365	Mar 31, 18	-	152
Banca di Sondrio - Unsecured loan	2.08%	Jan 31, 22	4,855	6,118
BIIS Loan No. 7496000	Euribor 3m + spread of 0.85%	Jun 30, 25	3,121	3,786
BIIS Loan No. 7496001	Euribor 3m + spread of 0.85%	Jun 30, 25	1,094	1,329
Carige	2.00%	Oct 31, 19	49	119
Carige loan	2.50%	Jun 30, 25	379	432
Carige loan	5.30%	Dec 31, 31	1,058	1,113
S.Paolo loan	4.15%	Dec 31, 30	-	5
Carige loan	2.85%	Dec 31, 25	11,531	13,000
Total			**27,770**	**33,382**
of which:				
Bank payables - non-current portion of loans			22,700	27,758
Bank payables - non-current portion of loans			5,070	5,624

Banca Infrastruttura Innovazione e Sviluppo S.p.A. (now Intesa San Paolo S.p.A.) grated Villa Von Siebenthal S.r.l. two loans, the first of Euro 6.7 million and the second of Euro 2.5 million, for a total of Euro 9.2 million, under two separate loan agreements. The loan agreements provide for: (i) an undertaking for the borrower to comply with the following financial covenant: a ratio of net financial position to gross operating margin of 12 or lower, to be calculated within 60 days of the reporting date of the most recent financial statements; (ii) a cross-default clause between the two contracts, such that breach of one contract entails the right to invoke the acceleration clause in respect of the other; and (iii) a cross-default clause in respect of the breach of any financial obligation by the borrower that is not remedied within the contractually agreed term.

The calculation of the above covenant must be verified annually on the basis of the annual financial statements approved by Villa Von Siebenthal S.r.l.

Parameter	*Threshold value*	*Value at the last observation date (December 31, 2018)*
Net Financial Position / Gross Operating Margin	<12	3.35

The above covenant had been observed at the date of these financial statements. There is provision for negative pledges or events of default.

Changes in liabilities deriving from financing activities are presented below in accordance with IAS 7 *Statement of Cash Flows*:

in Euro thousands	At December 31, 2018	Cash flow	Change Fair Value	Reclass.	At December 31, 2017
Other non-current financial payables	(228)	386	-	6,130	(6,744)
Derivative financial instrument liabilities - non-current	(11)	-	-	-	(11)
Medium/long-term loans and borrowings	(22,700)	5,058	-	-	(27,758)
Current bank payables	(16,024)	3,922	-	-	(19,946)
Other current financial debt	(6,118)	562	-	(6,130)	(550)
Current financial receivables	135	132	-	-	3
Cash and cash equivalents	92,287	69,652	-	-	22,635
Net financial debt	**47,341**	**79,712**	**-**	**-**	**(32,371)**

The “Cash flow” column refers to the cash flows presented in the Consolidated Cash Flow Statement.

Note 20 Derivative financial instrument liabilities - non-current

Derivative financial instrument liabilities - non-current amount to Euro 11 thousand at December 31, 2018. There have been no changes compared to December 31, 2017.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Derivative financial instrument liabilities - non-current	11	11	-
Total derivate financial instrument liabilities	**11**	**11**	**-**

The Group uses derivative financial instruments such as interest rate swaps to hedge against risks deriving from interest rate fluctuations. These derivative financial instruments are initially recorded at fair value at the date on which they are agreed; subsequently this fair value is periodically recalculated.

The Company has opted not to account for such instruments according to the hedge accounting method.

Interest rate derivatives are over-the-counter (OTC) instruments, meaning that they are entered into bilaterally with market counterparties and their current value is determined on the basis of valuation techniques based on inputs (such as interest rate curves) observable on the market (level 2 of the fair value hierarchy established in IFRS 7 and described in further detail in note 39).

In relation to the financial instruments existing at December 31, 2018, is reported that:

- all derivative financial instruments valued at fair value fall within level 2 (identical situation in 2016 and 2015);
- no transfers occurred from Level 1 to Level 2 or vice-versa in the first half of 2018 and in 2017;
- no transfers occurred from Level 3 to the other levels or vice-versa in the first half of 2018 and in 2017.

The derivative financial instruments are measured on the basis of the interest rates and yield curves observable and commonly quoted intervals.

Note 21 Trade payables

Trade payables amount to Euro 20,751 thousand at December 31, 2018 and to Euro 19,296 thousand at December 31, 2017. A breakdown of the account is shown in the table below:

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Trade Payables	15,050	12,519	2,531
Payables to doctors	753	777	(24)
Other payables	253	117	136
Payables for invoices to be received	5,545	6,170	(625)
Credit notes to be received	(850)	(287)	(563)
Total trade payables	**20,751**	**19,296**	**1,455**

At December 31, 2018 the account was up by Euro 1,455 thousand on the previous year, due to the increase in operating costs as a result of the purchase of raw materials and services, a slight increase in average payment times (on an equivalent scope, DPO rose from 89 days in 2017 to 90 days in 2018), and, finally, an increase in investments.

In the above table, attention should be drawn to the increase in the amount of credit notes to be received compared with the previous year of Euro 563 thousand, bearing witness to the Group’s bargaining power.

Note 22 Current financial payables

The following table presents the figures for the Group’s outstanding current financial payables.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Current bank payables	16,024	19,946	(3,922)
Total Payables for shareholder loans	5,954	-	5,954
Total other current financial payables	164	550	(386)
Total current financial payables	**22,142**	**20,496**	**1,646**

Current bank payables consist primarily of overdrafts and short-term credit facilities, together with the short-term portion of loans to be repaid in the following year.

The composition of “Current bank payables” at December 31, 2018, compared with the situation at December 31, 2017, is presented below.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Current bank payables - 4 bank payables (short-term portion of loans)	5,070	5,624	(554)

Current bank payables - 4 bank payables (current accounts)	516	167	349
Current bank payables - 4 bank payables (advances)	10,438	14,155	(3,717)
Total Current bank payables	**16,024**	**19,946**	**(3,922)**

At December 31, 2018 the account "Short-term portion of loans" refers to loans set to come due within 12 months contracted by the following companies: Rugani Hospital S.r.l., Villa Von Siebenthal, CMSR Veneto Medica S.r.l., L'Eremo di Miazzina S.p.A., FI.D.ES. Medica S.r.l. and FI.D.ES. Servizi S.c.a.r.l..

Current bank payables consist primarily of advances on commercial invoices and the use of bank account overdraft facilities.

The composition of "Other current financial payables" at December 31, 2018, compared with the situation at December 31, 2017, is presented below.

in Euro thousands	**At December 31**	**At December 31**	**Change**
	2018	**2017**	**2018 vs 2017**
Shareholder loan	5,954	-	5,954
Other current financial payables - leasing companies	164	404	(240)
Other current financial payables - accrued financial liabilities and deferred financial income	-	146	(146)
Total Other financial payables	**6,118**	**550**	**5,568**

"Other financial payables" are composed of (i) "Shareholder loans" of Euro 5,954 thousand at December 31, 2018, attributable to the financial payable due to Larama 98 S.p.A. set to come due on June 30, 2019, classified among "Other non-current financial payables" at December 31, 2017; and (ii) "Payables to leasing companies" of Euro 164 thousand, an account that refers to the recognition of the current financial payable for the acquisition of assets under lease, accounted for according to the finance method and relating primarily to the purchase of healthcare equipment. The account decreased by Euro 240 thousand compared to the previous year, due to the payments made as they came due.

Note 23 Tax payables

Tax payables include payables relating to IRES company income taxes, IRAP regional tax, tax consolidation and other current taxes. The breakdown is as follows.

in Euro thousands	**At December 31**	**At December 31**	**Change**
	2018	**2017**	**2018 vs 2017**
Tax payables - IRES tax payables	195	347	(152)
Tax payables - IRAP tax payables	185	281	(96)
Tax payables - from tax consolidation	14	3,280	(3,266)
Total Tax payables	**394**	**3,908**	**(3,514)**

As shown in the table below, at December 31, 2018 the account consisted solely of the IRAP and IRES payable. The IRES payable is primarily attributable to Hesperia Hospital and Casa di Cura Rugani, which benefit from a reduced IRES tax rate and thus are not included within the scope of tax consolidation. Tax payable at December 31, 2018 amounted to Euro 394 thousand, compared with a balance of Euro 3,908 thousand for the previous year. The decrease in the item in question amounts to Euro 3,514 thousand and is primarily attributable to the reclassification of the tax consolidation payable of Euro 2,086 thousand recognized by Villa Berica and of Euro 1,194 thousand recognized by Hesperia Hospital to “Other current liabilities”. This reclassification was motivated by the fact that the company that prepares the tax consolidation is no longer Raffaele Garofalo S.p.A., which following the IPO ceased to exercise control; for the year 2018, GHC S.p.A. will prepare the tax consolidation.

Note 24 Other current liabilities

At December 31, 2018 “Other current liabilities” amounted to Euro 13,798 thousand, compared with Euro 11,019 thousand, marking an increase of Euro 2,777 thousand. The table below summarizes the value of the account and changes compared with the previous year.

in Euro thousands	At December 31	At December 31	Change
	2018	2017	2018 vs 2017
Social security institutions	2,221	2,194	27
Tax payables	65	103	(38)
Withholding tax payables	2,034	1,722	312
Employee payables	3,944	3,911	33
Other payables	5,534	3,089	2,445
Total Other current liabilities	**13,798**	**11,019**	**2,779**

As shown in the above table, the most significant change relates to the account “Other payables”, which presented a net increase of Euro 2,445 thousand. This change was due to the reclassification of the tax consolidation payables described above, totalling Euro 3,280 thousand, net of the payments made by the facilities to Raffaele Garofalo S.p.A. for a total of Euro 1,549 thousand. The item increased by approximately Euro 750 thousand, representing the residual share of the debt at December 31, 2018 for the purchase of the property by RoeMar S.r.l. commented on under assets in progress and advances.

The account “Other payables” includes Euro 1,250 thousand due to Larama 98 S.p.A.

Note 25 Revenues from services

Total revenues amounted to Euro 155,637 thousand in 2018, an increase of Euro 18,971 thousand on the previous year (+13.9%). It should be noted that all services are rendered in Italy.

Such revenues are recognized after the services have been rendered. In accordance with IFRS 15, the Group recognizes revenues from services and sales of goods at the fair value of the consideration received or to be received, net of adjustments relating to the overrun of revenue budgets (established in terms of maximum acceptable spending limits by the regions for services rendered by private healthcare facilities) relating to services under accreditation, of which the regions notify each healthcare facility.

The table below shows the breakdown of revenues from services for the years ended December 31, 2018 and December 31, 2017.

In Euro thousands	As at December 31				Change
	2018	*% of total*	2017	*% of total*	2018 vs 2017
Local residential and outpatient services	35,530	*22.8%*	26,936	*19.7%*	8,594
Total hospital services	117,738	*75.6%*	108,437	*79.3%*	9,301
Total revenues from services	**153,268**	**98.5%**	**135,373**	**99.1%**	**17,895**
Other revenues	2,369	1.5%	1,293	0.9%	1,076
Total revenues	**155,637**	**100.0%**	**136,666**	**100.0%**	**18,971**

Revenues from services, which amounted to Euro 153,268 thousand in the year ended December 31, 2018, as shown in the following table, increased by approximately Euro 17,895 thousand on the previous year, of which Euro 15,339 thousand attributable to the change in the scope of consolidation due to the inclusion for all 2018 of the Fides group and Nobili, amounting to Euro 6,887 thousand and Euro 8,452 thousand, respectively. The revenue growth was also driven by the other Group facilities, which together contributed Euro 2,556 thousand, primarily attributable to Rugani Hospital (+Euro 930 thousand on 2017), Villa Von Siebenthal (+Euro 1,307 thousand on 2017) and, finally, CMSR (+Euro 219 thousand). It should be noted that the increase in the revenues of Villa Von Siebenthal included Euro 704 thousand attributable to the agreement signed with the Region of Lazio, which essentially provides for the remuneration of the services rendered in the modules for adolescents in 2017 and 2018 to be paid according to the new rates.

The increase of Euro 9,301 thousand in hospital services is attributable to the change of scope, of which Euro 8,452 thousand was related to Casa di Cura Prof. Nobili, while the remainder of Euro 849 thousand is primarily to be ascribed to Rugani Hospital, owing to the increase in revenues on both specialist hospital outpatient services provided privately of Euro 355 thousand and acute and post-acute care services for patients under accreditation of Euro 420 thousand.

Revenues for local residential and outpatient care increased by Euro 8,594 thousand on the previous year, primarily attributable to the change in scope of the Fides Group for Euro 6,887 thousand and to Villa Von Siebenthal for Euro 1,307 thousand. The latter facility reported an increase in revenues of Euro 1,307 thousand due to the operation of the department dedicated to adolescents throughout the year, together with the agreement recently entered into with the region, as described above.

The table below shows the breakdown of revenues from hospital services for the year ended December 31, 2018, compared with the year ended December 31, 2017.

In Euro thousands	As at December 31				Change
	2018	*% of total*	2017	*% of total*	2018 vs 2017
Acute and post-acute care services	91,141	*58.8%*	85,800	*62.8%*	5,341
Outpatient services	26,597	*17.2%*	22,637	*16.6%*	3,960

Total hospital services	**117,738**	***76.0%***	**108,437**	***79.3%***	**9,301**

Revenues from hospital services amounted to Euro 117,738 thousand during the year ended December 31, 2018, accounting for 76% of the Group's total revenues, up by Euro 9,301 thousand overall.

Revenues from acute and post-acute care services of Euro 91,141 thousand accounted for 58.8% of the Group's total revenues during the year ended December 31, 2018 (Euro 85,800 thousand or 62.8% of the total for the year ended December 31, 2017). The increase of Euro 5,341 thousand on the previous year is primarily to be attributed to the inclusion in the Group of Casa di Cura Prof. Nobili for Euro 5,918 thousand. This trend was partially offset by a slight decrease of Euro 478 thousand reported by Eremo di Miazzina, chiefly as the result of a mix that allowed the facility to increase its revenues on hospital outpatient services by Euro 496 thousand, with positive effects on operating margins.

Revenues from hospital outpatient services of Euro 26,597 thousand accounted for 17.2% of the Group's total revenues during the year ended December 31, 2018 (Euro 22,637 thousand or 16.6% of the total for the year ended December 31, 2017) and increased by Euro 3,960 thousand. The change includes Euro 2,534 thousand attributable to the inclusion in the Group of Casa di Cura Prof. Nobili S.p.A., Euro 496 thousand to the increase in the revenues reported by Eremo, as commented on above, and Euro 355 thousand attributable to the increase in the revenues of Rugani Hospital for hospital outpatient and specialized hospital services rendered to private patients.

The table below shows the breakdown of revenues from local residential and outpatient care services for the year ended December 31, 2018, compared with the previous year.

In Euro thousands	As at December 31				Change
	2018	***% of total***	**2017**	***% of total***	**2018 vs 2017**
Non-hospital care services	23,019	*14.8%*	14,747	*10.8%*	8,272
Local outpatient care services	12,511	*8.0%*	12,189	*8.9%*	322
Local residential and outpatient care services	**35,530**	***22.8%***	**26,936**	***19.7%***	**8,594**

Revenues from local residential and outpatient care services amounted to Euro 35,530 thousand during the year ended December 31, 2018, marking an increase of Euro 8,594 thousand on the previous year.

Revenues from the non-hospital care services component accounted for 14.8% of the Group's total revenues, an increase of Euro 8,272 thousand on the previous year, primarily attributable to the change in the scope of consolidation relating to the Fides group for Euro 6,887 thousand, whereas Euro 1,307 thousand referred to the increase in revenues reported by Villa Von Siebenthal, as commented upon above.

The local outpatient care services component, which amounted to Euro 12,511 thousand, or 8%, was up on the previous year by Euro 322 thousand, primarily due to the increase in revenues for services rendered by CMSR.

Note 26 Other operating revenues

Other operating revenues amounted to Euro 2,368 thousand for the year ended December 31, 2018, compared with Euro 1,293 thousand for the year ended December 31, 2017, a difference of Euro 1,075 thousand.

The table below provides the breakdown of the account.

In Euro thousands	At December 30		Change
	2018	**2017**	**2018 vs 2017**
Other income - third parties	1,129	540	589
Tax credits	604	435	169
Taxable prior year income	500	126	374
Gain on asset disposals	104	116	(12)
Prior year income	32	76	(44)
Total other operating revenues	**2,369**	**1,293**	**1,076**

The increase was principally due to:

(i) the change in the account "Other income" is primarily to be ascribed to the sale of healthcare supplies to the medical supplier of Hesperia Hospital Modena S.p.A. for Euro 383 thousand.

(ii) the performance of grants for scientific research conducted by Hesperia Hospital Modena S.p.A., amounting to Euro 604 thousand (up on the previous year by Euro 169 thousand);

(iii) the change in the scope of consolidation attributable to the Fides Group in the amount of Euro 175 thousand and to Casa di Cura Prof. Nobili S.p.A. in the amount of Euro 138 thousand; the above companies entered the GHC Group following the acquisitions closed on June 28, 2017 and December 6, 2017, respectively.

Note 27 Costs for raw materials, ancillary, consumables and goods

Costs for raw materials, ancillary, consumables and goods amounted to Euro 21,268 thousand for the year ended December 31, 2018 and to Euro 19,459 thousand for the year ended December 31, 2017, marking an increase of Euro 1,809 thousand. This increase is due to both the change the scope of consolidation for a total of Euro 1,074 thousand, of which Euro 228 thousand attributable to the Fides Group and Euro 847 thousand to Casa di Cura Prof. Nobili, and to the greater costs incurred by the subsidiary Hesperia Hospital and Villa Berica, amounting to Euro 407 thousand and Euro 229 thousand, respectively.

The table below shows the breakdown of the account in question for the years ended December 31, 2018 and December 31, 2017.

In Euro thousands	At December 31,		Change
	2018	***2017***	***2018 vs 2017***
Healthcare supplies and prostheses	15,298	13,656	1,642
Medical and pharmacological material	3,563	3,372	191
Testing and hygienic materials	1,149	1,133	16
Change in inventories of raw materials, ancillary, consumables and goods	133	528	(395)
Other	1,125	770	355
Total raw materials, ancillary & consumables	**21,268**	**19,459**	**1,809**

During the year ended December 31, 2018 the most significant component of the costs of raw materials, ancillary and consumables was represented by the costs of “Healthcare supplies and prostheses” of Euro 15,298 thousand, up by Euro 1,642 thousand on the previous year, primarily attributable to the subsidiary Hesperia Hospital S.p.A.

The second-most significant cost component was that relating to the purchase of medical and pharmacological materials, amounting to Euro 3,563 thousand, compared with Euro 3,372 thousand for the year ended December 31, 2017.

Note 28 Service costs

Service costs for the year ended December 31, 2018 amounted to Euro 62,840 thousand, compared with Euro 51,058 thousand for the year ended December 31, 2017, marking an increase of Euro 11,782 thousand. This change is attributable to the following: (i) the effects of the change in the scope of consolidation attributable to the Fides Medica Group and Casa di Cura Prof. Nobili S.p.A., amounting to Euro 3,741 thousand and Euro 3,434 thousand, respectively, and hence to a total of Euro 7,175 thousand; (ii) non-recurring IPO costs of Euro 4,037 thousand; and (iii) a residual increase primarily associated with the greater costs of the holding company’s new organizational structure.

The table below provides the breakdown of the account for the year ended December 31, 2018 and a comparison to the same period of the previous year:

In Euro thousands	At December 31,		Change
	2018	**2017**	**2018 vs 2017**
Medical and nursing care services	34,019	30,490	3,529
Owned asset maintenance services	2,198	2,323	(125)
Catering services	2,100	2,136	(36)
Technical healthcare services	2,308	1,937	371
Cleaning costs	1,626	1,444	182
Electricity	1,552	1,333	219
Coordinated long-term contractors	1,082	1,119	(37)
Director fees	2,023	1,052	971
Rental charges – equipment	861	1,044	(183)
Third-party processing (tests, etc.)	981	912	69
Legal fees	511	775	(264)
Linen hire	506	531	(25)
Listing charges	4,037	0	4,037
Other	9,036	5,962	3,074
Total service costs	**62,840**	**51,058**	**11,782**

The increase in service costs is primarily due to: (a) medical and surgical services of Euro 3,529 thousand attributable to the “change in scope of consolidation” effect amounting to Euro 1,970 thousand for the Fides Group and to Euro 1,875 thousand for Casa di Cura Prof. Nobili, an amount partially mitigated by the decrease in the cost of Villa Von Siebenthal of Euro 218 thousand following the transfer from contractor to employee status of nurses and rehabilitation technicians and of Euro 181 thousand attributable to the Palladio Medical

Center, the liquidation process for which is essentially nearing completion.

The other item that contributes significantly to the increase of the account concerned is the allocation of IPO costs not accounted for directly as a reduction in net equity of Euro 4,037 thousand. This amount has been determined by applying a percentage equal to the number of new shares issued of the total post-IPO shares, i.e. 26.8%, to the total IPO costs of Euro 7,354 thousand, net of bank fees of Euro 1,837 thousand taken directly to equity.

For the year ending December 31, 2018 the account "other" consists primarily of: (i) water, methane and natural gas, telephone and postal expenses of Euro 1,404 thousand; (ii) administrative and tax consultancy and payroll processing of Euro 1,027 thousand; (iii) other rental expenses of Euro 559 thousand; (iv) technical consultancy of Euro 756 thousand; (v) waste disposal service of Euro 384 thousand; (vi) total property, all-risk and third-party liability insurance of Euro 532 thousand; and (vii) linen laundering of Euro 313 thousand. The item was also up by Euro 3,074 thousand on the year ended December 31, 2017, primarily owing to the inclusion in the scope of consolidation of companies belonging to the Fides Group for Euro 507 thousand, Casa di Cura Prof. Nobili S.p.A. for Euro 890 thousand and Hesperia Hospital for Euro 429 thousand.

Note 29 Personnel costs

Personnel costs for the year ended December 31, 2018 amounted to Euro 38,707 thousand, compared with Euro 34,651 thousand for 2017, marking an increase of Euro 4,056 thousand. The increase in personnel costs was attributable to the change in the scope of consolidation in the total amount of Euro 3,730 thousand, of which Euro 2,702 thousand attributable to Casa di Cura Prof. Nobili and Euro 1,028 thousand to the Fides Group.

On an equivalent scope basis, personnel costs also increased by a total of Euro 327 thousand as the net effect of: (i) an increase in the personnel costs of GHC's holding company of Euro 664 thousand to form the structure of the holding company for the IPO process, (ii) an increase in the personnel costs of Villa Von Siebenthal following the conversion of various personnel from contractor to employee status; (iii) an increase in the cost of Rugani Hospital of Euro 501 thousand, to be correlated with the increase in the facility's revenues; and (iv) a decrease in the personnel costs of Hesperia of Euro 1,350 thousand due to the termination of indefinite-term employment contracts that were not renewed following internal efficiency enhancements.

The table below shows the breakdown of personnel costs for the year ended December 31, 2018, with a comparison to the year ended December 31, 2017.

In Euro thousands	At December 31,		Change
	2018	***2017***	***2018 vs 2017***
Wages and salaries	28,084	25,263	2,821
Social security charges	8,339	7,238	1,101
Severance	1,959	1,995	(36)
Other	325	155	170
Total personnel costs	**38,707**	**34,651**	**4,056**

Note 30 Other operating costs

Other operating costs amounted to Euro 7,063 thousand in 2018, up from Euro 6,616 thousand in 2017, an increase of Euro 447 thousand.

The table below shows the breakdown of such costs for the years ended December 31, 2018 and December 31, 2017.

In Euro thousands	At December 31,		Change
	2018	*2017*	*2018 vs 2017*
Non-deductible VAT on a pro rata basis	5,645	5,326	319
Income taxes	792	627	165
Other operating charges	214	223	(9)
Prior year charges	200	158	42
Deductible expenses	34	87	(53)
Associations	99	70	29
Other costs	79	125	(46)
Total Other operating costs	**7,063**	**6,616**	**447**

As may be seen from the above table, the account in question increased by Euro 447 thousand, owing primarily to the item “Non-deductible VAT on a pro rata basis”, which represents approximately 79% of the total and increased by Euro 319 thousand. The increase was essentially due to the change in the scope of consolidation, which accounted for Euro 299 thousand.

Note 31 Amortisation, depreciation and write-downs

Amortisation, depreciation, and write-downs for the year ended December 31, 2018 amounted to Euro 7,749 thousand, compared with Euro 5,920 thousand for the year ended December 31, 2017, marking an increase of Euro 1,829 thousand.

The table below shows the breakdown of and changes in the account in question for the years ended December 31, 2018 and December 31, 2017.

In Euro thousands	At December 31,		Change
	2018	*2017*	*2018 vs 2017*
Amortisation of intangible assets	334	334	0
Depreciation of property, plant and equipment and investment property	5,872	5,380	492
Write-downs	1,543	206	1,337
Total amortisation, depreciation and write-downs	**7,749**	**5,920**	**1,829**

Amortisation of intangible assets was unchanged on the previous year.

Depreciation of property, plant and equipment increased by Euro 492 thousand, of which Euro 442 thousand was attributable to the change in the scope of consolidation, broken down into Euro 290 thousand relating to the Fides Group and Euro 152 thousand to Casa di Cura Prof. Nobili. The increase in the account was also mainly due to Hesperia Hospital, which reported greater depreciation of Euro 49 thousand owing to the new investments undertaken in the course of the year.

Write-downs of accounts receivable amounted to Euro 1,543 thousand during the year ended December 31, 2018, an increase of Euro 1,337 thousand. The account consists of accruals recognized according to a prudential approach, on the basis of legal opinions primarily attributable to Hesperia Hospital in the amount of Euro 760 thousand and to Rugani Hospital in the amount of Euro 775 thousand.

In the case of Hesperia, the management prudentially set aside provisions of Euro 760 thousand to cover possible default risks in accordance with IFRS 15.

The provision recognized by Rugani Hospital, as described in further detail in the section on disputes with local health authorities, is to be attributed to the imposition by the local health authority for South-eastern Tuscany of restrictions and ceilings on the volumes of services (of a highly complex nature, involving specialist outpatient care, including outpatient surgery) provided to patients residing outside the region. Despite having appealed the measure, on the basis of an opinion from its legal counsel the company decided that an unfavourable outcome was probable and set aside a provision of Euro 775 thousand.

Note 32 Impairments and other provisions

Impairments and other provisions decreased by Euro 2,911 thousand on the previous year.

The table below shows the breakdown of the account in question and the change on the previous year:

In Euro thousands	At December 31,		Change
	2018	*2017*	*2018 vs 2017*
Provision for risks on legal cases in progress	375	1,900	(1,525)
Release of risk provisions	(1,481)	0	(1,481)
Other provisions	111	12	99
Impairment of equity instruments	8	12	(4)
Total impairments and other provisions	**(987)**	**1,924**	**(2,911)**

Accruals for new lawsuits brought in 2018 amounted to Euro 375 thousand and were primarily attributable to Eremo di Miazzina (Euro 200 thousand) and Rugani Hospital (Euro 125 thousand). More specifically, the amount set aside by Eremo, on the basis of the opinion of its legal counsel, is intended to cover the damage claims brought in 2018 by the heirs of a patient of the facility. In the case of Rugani Hospital, the accrual of Euro 125 thousand is primarily related to healthcare litigation. The decrease in the accrual compared with the previous year is to be attributed to the focus of the Group's management on preventing health risks.

The release of provisions for risks in 2018 amounted to Euro 1,481 thousand, of which Euro 1,449 thousand was due to the release of provisions for risks and charges primarily associated with the resolution of healthcare litigation involving Hesperia Hospital, amounting to approximately Euro 1,000 thousand, for information on which the reader is referred to Note 18 Provision for risks and charges. The efforts devoted to preventing health risks prior to the Group's IPO ensured that the amounts awarded at trial were less than the provisions set aside on the basis of the opinions provided by the legal counsel representing the facilities in the litigation.

The account "Other provisions" of Euro 111 thousand includes Euro 62 thousand relating to the provision for end-of-service indemnities for several directors and approximately Euro 50 thousand relating to non-healthcare claims.

Note 33 Financial income

Financial income amounted to Euro 10 thousand for the year ended December 31, 2018, compared with a balance of Euro 875 thousand in the previous year, marking a decrease of Euro 865 thousand.

The table below shows the breakdown of the account in question and the change on the previous year:

In Euro thousands	At December 31,		Change
	2018	2017	2018 vs 2017
Interest income	7	777	(770)
Other income	3	98	(95)
Total financial income	**10**	**875**	**(865)**

The change in the account on the previous year of Euro 865 thousand is primarily to be attributed to late payment interest income invoiced and collected by the subsidiary Eremo di Miazzini in 2017 from the Verbano-Cusio-Ossola health authority, in conclusion of the dispute regarding service volumes in 2007/2008. This is a non-recurring event that did not affect 2018, thus resulting in the change in question.

Note 34 Financial charges

Financial charges amounted to Euro 1,174 thousand, compared with a balance of Euro 930 thousand in the previous year, marking an increase of Euro 244 thousand.

The table below shows the breakdown of and changes in the account in question compared to the year ended December 31, 2017.

In Euro thousands	At December 31,		Change
	2018	2017	2018 vs 2017
Interest on mortgage loans	686	636	50
Bank interest charges	138	129	9
Interest expenses on advances	75	70	5
Other interest charges	249	44	205
Financial charges	27	51	(24)
Total financial charges	**1,175**	**930**	**245**

During the year ended December 31, 2018, the account "Interest on mortgage loans" increased by a net amount of approximately Euro 50 thousand, to be attributed to (i) the incidence on all of 2018 of the financial charges of Euro 161 thousand relating to the loan contracted for the acquisition of the subsidiary Fides Medica at the end of the first half of 2017, (ii) the decrease of Euro 50 thousand relating to Rugani Hospital S.r.l. owing to the reduction to 1.20% of the floor rate on the unsecured loan contracted from Banca Popolare di Sondrio and (iii) the reduction of Euro 42 thousand associated with C.M.S.R. Veneto Medica S.r.l. relating to the repayment of the loans contracted from Banca Carige and Monte dei Paschi di Siena

The account "Other interest charges" presented an increase of Euro 204 thousand on 2017, to be attributed to the interest on GHC's debt to Larama 98 S.p.A., which began to run on 1 January 2018.

Note 35 Results of investments at equity

The table below shows the breakdown of and changes in the account in question for the years ended December 31, 2018 and December 31, 2017.

In Euro thousands	At December 31,		Change
	2018	*2017*	*2018 vs 2017*
Share of result	201	32	169
Total	**201**	**32**	**169**

The amount for the year ended December 31, 2018, of Euro 201 thousand refers to the Group's share of the profit of Il Fiocco S.c.a.r.l. of Euro 172 thousand, also taking account of the greater pro rata profit of Euro 28 thousand reported in the final financial statements for the year ended December 31, 2017 approved by the company's shareholders' meeting.

As described above, the company joined the Group in 2017, through the acquisition of the Fides Group. The profit earned in 2018 was due to the expansion of the above company's activities, and in particular to the launch of the secure residential care services. The change in the item compared to the previous year of Euro 169 thousand was due to the share of the profit for the year.

Note 36 Income taxes

The table below shows the breakdown of and changes in the account in question for the periods ended December 31, 2018 and December 31, 2017.

In Euro thousands	At December 31,		Change
	2018	**2017**	**2018 vs 2017**
Current taxes	3,250	4,085	(835)
Deferred tax income	(127)	(55)	(72)
Deferred tax charges	741	582	159
Other	100	94	6
Total income taxes	**3,964**	**4,706**	**(742)**

During the period ended December 31, 2018, income taxes amounted to Euro 3,964 thousand, marking a decrease of Euro 742 thousand on the previous year, essentially due to the tax benefit generated by the Group's IRES taxation, whereby the tax loss reported by GHC S.p.A., for the reasons stated above, was offset by the taxable profit earned by the other group companies.

The Group's nominal and effective rates for the years ended December 31, 2018 and December 31, 2017 are reconciled below.

IRES reconciliation	At December 31	
in Euro thousands	2018	2017
Profit before taxes	**18,032**	**17,015**
IRES rate applicable	24%	24%
Theoretical tax charge (Profit before taxes * IRES tax rate)	**4,328**	**4,082**
Income taxes with a different IRES rate	(928)	(825)
Allocation of merger deficit	143	153
Taxes not deductible	210	387
Amortisation Goodwill	(96)	(109)
R&D tax credit	(85)	-
Release of Hesperia Hospital provisions	(141)	-
IPO costs taken to equity	(796)	-
Other changes	(48)	(50)
Total income taxes	**2,586**	**3,640**
Effective tax rate	**14.3%**	**21.4%**

IRAP reconciliation	At December 31	
in Euro thousands	2018	2017
Profit before taxes	**18,032**	**17,015**
Applicable IRAP rate	3.9%	3.9%
Theoretical tax charge (Profit before taxes * IRAP tax rate)	**703**	**664**
Other changes	575	310
Total IRAP tax	**1,278**	**974**
Region taxable base (3.90%)	1,004	757
Region taxable base (4.82%)	274	217
Total income taxes	**1,278**	**974**
Effective tax rate	**7.1%**	**5.7%**

Note 37 Net profit for the year

Net profit for the year ended December 31, 2018 amounted to Euro 14,069 thousand, of which Euro 13,583 thousand attributable to the Group and Euro 486 thousand to minority interests, up from Euro 12,309 thousand for the year ended December 31, 2017, of which Euro 12,241 thousand attributable to the Group and Euro 68 thousand to minority interests.

Note 38 Basic and diluted earnings per share

The basic earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of the parent company by the average weighted number of ordinary shares outstanding during the period. The diluted earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of the parent company by the average weighted number of ordinary shares outstanding.

Information is shown below for the calculation of the basic and diluted earnings per share:

In Euro thousands	At December 31,	At December 31,
	2018	**2017**
Net profit attributed to the shareholders of the parent company	13,583	12,241
Number of ordinary shares at end of year/period*	82,000,000	60,000,000
Earnings per share – basic (in euro)	0.17	0.20
Earnings per share – diluted (in euro)	0.17	0.20

There were no other operations on the ordinary shares or potential ordinary shares between the balance sheet date and the date of the preparation of the financial statements.

*When calculating basic and diluted earnings per share, the share split and free share capital increase shown below were considered retrospectively as if they had occurred on January 1, 2017, in accordance with IAS 33, paragraph 28. In particular, the issue of 59,700 thousand new shares without par value.

Note 39 Fair value hierarchy

The contractual characteristics and fair values of derivative financial instruments hedging against interest rate risk at December 31, 2018 and December 31, 2017 are presented below:

Company	Contr.	Type	Rate payable	Rate receivable	Beginning Date	Maturity date	Notional principal (in Euro thousands)	Fair Value (Euro thousands)	
								At December 31, 2018	At December 31, 2017
Eremo	Banco Popolare	Interest Rate Swap	0.60%	Euribor 3m	Apr 20, 15	Dec 31, 24	615	11	11
Total								11	11

Finally, in accordance with IFRS 13, it is reported that the CVA (Credit Value Adjustment) and DVA (Debit Value Adjustment) have been calculated for the outstanding derivative financial instruments, and it has been determined that the amount in question is not meaningful for the purposes of the recognition of the related effects in these financial statements.

The following table presents the carrying amount of outstanding financial instruments (current and non-current financing) stated in the balance sheet, with a comparison to their fair values.

Financial Liabilities	December 31, 2018		December 31, 2017	
In Euro thousands	Book Value	Fair Value	Book Value	Fair Value
Securities investments	1,027	1,845	1,063	1,696
Loans	27,770	28,601	33,382	33,086
Derivatives	11	11	11	11
Capital instruments	878	878	788	788
Total	**28,659**		**34,181**	**33,885**

The financial liabilities set out above have been assigned to level 2 of the fair value hierarchy (for both 2018 and 2017).

Management has verified that the fair values of the other items approximate their carrying amounts due to the short-term maturities of these instruments.

Fair Value - Hierarchy

All financial instruments at fair value, or for which disclosure is provided, are classified into the three fair value categories described below, based on the lowest level of input significant to determining overall fair value:

- Level 1: Listed prices (not adjusted) in an active market for identical assets and liabilities.
- Level 2: valuation techniques (for which the lowest level of input significant to determining fair value is directly or indirectly observable);
- Level 3: valuation techniques (for which the lowest level of input significant to determining fair value is not observable).

At the end of each period, the Group determines whether financial instruments measured at fair value on a recurring basis have been transferred between levels of the hierarchy and reviews their classification (on the basis of the lowest level of input significant to determining overall fair value).

Valuation processes

For recurring and non-recurring measurement at fair value of instruments classified to level 3 of the fair value hierarchy, the Group uses valuation processes to establish valuation procedures and principles and analyse changes in the measurement of fair value from one period to the next.

The method for calculating fair value used by the Group and checking the models used includes a series of checks and other procedures aimed at ensuring that there are adequate safeguards to guarantee their quality and adequacy. Once prepared, fair value estimates are also revised and assessed by the Chief Financial Officer (CFO).

The CFO validates fair value estimates according to the following approaches:

• Comparing the prices with observable market prices or other independent sources;
• Verifying the model’s calculations;
• Assessing and confirming the input parameters.

The CFO also assesses the calibration of the model at least on an annual basis or when there are significant events on the relevant markets. The CFO is responsible for verifying that the final fair value levels have been set in accordance with IFRSs and proposes adjustments when necessary.

The valuation techniques and specific considerations for level 3 input data are explained in further detail below.

Valuation techniques and hypotheses

The fair value of a financial asset or liability is the price that would be received to sell an asset or that would be paid to transfer a liability in a normal transaction on the principal (or most advantageous) market at the measurement date, under current market conditions (for example, exit price), regardless of whether the price is directly observable or estimated using another valuation technique.

The following methods and assumptions were used to estimate the fair value:

- The fair value of securities quoted in an active market is based on the quoted price at the balance sheet date. The fair value of securities not quoted in an active market, such as bank loans or other financial liabilities, finance lease commitments or other non-current financial liabilities, is estimated on the basis of future cash flows, discounted by applying the current rates available for debt with similar terms, such as credit risk and residual maturity. The fair value of shares is sensitive to both a possible change in expected cash flows and/or the discount rate and a possible change in growth rates. For estimation purposes, management must use the unobservable input data presented in the following tables. Management regularly assesses a series of possible alternatives to such significant input data and determines their impact on total fair value.

- The fair value of the ordinary non-listed shares was estimated through the discounted cash flow model (DCF). The valuation requires management to make assumptions with regards to the model inputs, including the projected cash flows, the discount rate, the credit risk and the volatility. The probability of differing estimates within the interval may be reasonably verified and are utilised in management's estimates of the fair value of these non-listed investments;

- The Group undertakes derivative financial instruments with a range of counterparties, principally financial institutions with allocated credit ratings. The derivatives valued using measurement techniques with market recordable data principally consist of interest rate swaps. The most utilised measurement techniques include the "swaps" models, which utilise the calculation of the present value. The models consider various inputs, including the credit quality of the counterparty and interest rate curves. All derivative contracts are fully covered by cash, thus eliminating the risk of default by the Group.

Note 40 Commitments, risks and contingent liabilities

40.1 Finance leases and final purchase commitments

The Group has entered into finance leases for various items of healthcare equipment. The following table shows the details of future lease and rental payments and the current value of such payments:

in Euro thousands	At December 31, 2018		At December 31, 2017	
	Minimum payments due	Present value of payments	Minimum payments due	Present value of payments
Within one year	170	165	417	404
Beyond one year but within five years	181	178	351	343
Beyond 5 years	-	-	-	-

Total minimum payments due	351	343	768	747
Less interest expense	(8)	-	-21	-
Present value of lease payments	**343**	**343**	**747**	**747**

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognized as an asset.

40.2 Commitments and Guarantees

Commitments and guarantees at December 31, 2018 are described below.

Guarantees given by the Group on its own behalf to third parties:

- Indefinite-term commercial surety of Euro 40 thousand;
- Mortgage on real property no. 401039516 of Euro 8,000 thousand;
- Mortgage on real property under relationship no. 02399 – 690420329600 with Banca Intesa San Paolo S.p.A. of Euro 19,000 thousand;
- Mortgage no. 387613 of Euro 2,795 thousand, maturing on June 6, 2027;
- Consolidated mortgage charge of Euro 1,000 thousand valid until December 17, 2030;
- Mortgage on commercial properties of Euro 790 thousand.

Guarantees given by third parties to the Group:

- Surety letter of Euro 9,000 thousand, valid until revoked;
- Surety contract of Euro 155 thousand, entered into on January 16, 2018;
- Specific sureties with Banca Intesa San Paolo S.p.A. under relationships no. 02399 – 690420329600 of Euro 1,482 thousand and no. 02399 – 690420329601 of Euro 4,236 thousand;
- Surety of Euro 18 thousand contracted on August 17, 2017, expiring on January 31, 2019;
- Surety no. 18110970 of 141 thousand contracted on September 15, 2015;
- Surety letter of Euro 260 thousand, valid until revoked;
- Surety letter of Euro 1,820 thousand, valid until revoked;
- Surety letter of Euro 13,000 thousand, valid until revoked;
- Surety letter of Euro 845 thousand, valid until revoked;
- Surety letter of Euro 325 thousand, valid until revoked;
- First-demand surety of Euro 60 thousand on relationship no. 800003144432 contracted on January 30, 2012;
- First-demand surety of Euro 67 thousand on relationship no. 800003330921 contracted on January 8, 2009;
- First-demand surety of Euro 30 contracted on January 11, 2013.

Guarantees provided by the Group in favour of third parties:

- First-demand surety of Euro 94 contracted on January 21, 2001;
- Surety letter of Euro 1,950 thousand, valid until revoked;
- Surety letter of Euro 206 thousand, valid until revoked;
- Surety letter of Euro 200 thousand, valid until revoked;
- Surety letter of Euro 80 thousand, valid until revoked;
- Surety letter of Euro 790 thousand, valid until revoked;
- Surety letter of Euro 26 thousand, valid until revoked;

- Generic surety of Euro 50 thousand;
- Omnibus surety no. 838520 of Euro 150 thousand.;
- Mortgage on commercial properties of Euro 4.000 thousand.
- Surety letter provided by the bank to third parties of Euro 40 thousand, no. 08492 – 820000698581
- Surety letter provided by the bank to third parties of Euro 20 thousand, no. 08492 – 82000069858

No expected losses on guarantees have come to light.

40.3 Financial risk management

This section contains a description of the financial risks to which the Group and its subsidiaries are exposed, together with the policies and strategies employed by the Company and its subsidiaries to manage the risks concerned during the year to December 31, 2018 and the year to December 31, 2017.

It should be noted that are no plans for changes in the risk management policies set out below.

GHC and its subsidiaries are exposed to financial risks in their activities, and in particular risks of the following types:

• Credit risk arising from commercial transactions or financing activity;

• Liquidity risk, related to the availability of financial resources and access to the credit market;

• Market risk, and more specifically:

a) Operational risk relating to the conduct of the business;

b) Foreign exchange risk relating to transactions in currency areas other than their functional currency;

c) Interest rate risk relating to the Company's exposure to interest-bearing financial instruments;

d) Price risk, due to changes in quoted commodities prices.

The management and monitoring system for the main risks involves the Group's director and management, the directors and boards of directors of the consolidated companies and company personnel.

The primary goal of risk management is to protect the company's stakeholders (shareholders, employees, customers and suppliers) and financial integrity, as well as to safeguard the environment.

The policy for managing the risks to which the Group is exposed is approached as follows:

by setting guidelines at the central level that are to inspire operational management of market and liquidity risk and cash flows;

monitoring the results obtained.

The principal risks to which the Group is exposed are as follows:

40.3.1 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 legal entity in accordance with the Group's policy.

Information on trade receivable positions, net of the doubtful debts provision, at December 31, 2018 and December 31, 2017 is provided below by time past due:

in Euro thousands	At December 31	At December 31
	2018	2017
Not yet due	9,506	9,512
Overdue 0 - 90 days	22,126	22,660
Overdue 90 - 180 days	341	1,006
Overdue 180 - 360 days	222	600
Overdue beyond 360 days	3,044	4,621
Total trade receivables	35,239	**38,399**

Information on trade receivable positions, gross of the doubtful debts provision, at December 31, 2018 and December 31, 2017 is provided below by time past due:

in Euro thousands	At December 31	At December 31
	2018	2017
Not yet due	9,506	9,637
Overdue 0 - 90 days	22,564	22,782
Overdue 90 - 180 days	779	1,028
Overdue 180 - 360 days	1,097	664
Overdue beyond 360 days	5,671	7,156
Total	39,617	**41,267**
Doubtful debt provision	(4,378)	(2,868)
Total trade receivables	35,239	**38,399**

The risk of default is observed locally by the head offices of the subsidiaries, which monitor the collection of trade receivables. The Group's Administration Department 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 Reginal 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.

40.3.2 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.

Liquidity risk is managed by the individual legal entities 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.

The Group can rely on constant support from the banking system, due to the composition of its client portfolio (public healthcare authorities).

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 following is a breakdown of outstanding financial and trade payables in 2018 and 2017 by residual time to maturity:

In Euro thousands	At December 31, 2018			
	Financial payables	Trade payables	Liabilities for derivative instruments	Total
Maturity:				
Within 12 months	22,142	20,751	-	**42,893**
Beyond 12 months	17,442		-	**17,442**
Over 5 years	5,486		11	**5,497**
Total	**45,070**	**20,751**	**11**	**65,832**

In Euro thousands	At December 31, 2017			
	Financial payables	Trade payables	Liabilities for derivative instruments	Total
Maturity:				
Within 12 months	20,496	19,296	-	**39,792**
Beyond 12 months	26,420	-	-	**26,420**
Over 5 years	8,082	-	11	**8,093**
Total	**54,998**	**19,296**	**11**	**74,305**

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).

40.3.3 Market risk

The global economic crisis also shaped the first half of 2018, although within this scenario Group companies did not appear particularly exposed to negative market fluctuations.

However, as a consequence of the progressive deterioration of the public finances, in 2012 the central government enacted urgent economic measures aimed at containing public spending known as the “spending review”.

The Group was thus forced to confront the economic scope of these measures, which in effect took the form of a forced reduction in revenues, associated with the application of spending review discounts aimed at containing the relevant costs.

The Group’s main goal is to manage risk within pre-determined limits, in order to safeguard the achievement of the company’s objectives. The Group mainly does business with public health authorities in the areas where its care facilities are located. By virtue of this structure, its financial performance depends closely on the healthcare policies in its region of operation.

Italy’s central government has delegated authority over healthcare legislation to the regions, each of which drafts a Regional Health Plan on the basis of the National Healthcare Plan enacted by the government by proposal of the Ministry of Health, representing the strategic plan for initiatives in pursuit of health objectives and the functioning of services to satisfy the regional population.

The result of the peculiar nature of the Group’s clients and the rapidly changing legislative framework is a particularly complex situation of strong dependency on public health authorities and the relevant regional government.

40.3.4 Currency risk

The Group’s current activity is not exposed to exchange rate fluctuations at present, inasmuch as the Group conducts its business almost exclusively in euro.

40.3.5 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 department.

Hedging activity is assessed and decided upon on a case-by-case basis. The Group does not have outstanding interest-rate hedging derivative instruments.

Foreign exchange and interest rate risk is managed by the treasury departments of Group companies.

40.3.6 Price risk

The Company's current exposure to commodity price risk is immaterial.

In addition, the costs of healthcare materials are generally subject to fluctuations and other factors beyond the Group's control. The Group generally manages such fluctuations by increasing the prices of its services to private clients; increasing the rates paid for services under accreditation is beyond the Group's control. However, on the basis of an analysis of historical data, fluctuations of costs of healthcare materials have always been followed by an adjustment of the rate paid for services under accreditation. The Company has not adopted instruments to hedge against the risk of fluctuations in the costs of such components, but it exerts strong bargaining power over its suppliers, since it acts as a single purchasing center.

40.4 Legal disputes

Damage compensation claims

In March 2010 the Group suspended insurance cover for several facilities (Hesperia Hospital Modena S.p.A., L'Eremo di Miazzina S.p.A., Rugani Hospital S.r.l., Casa di Cura Villa Berica S.p.A. and Casa di Cura Villa Garda S.p.A.). Accordingly, since that date it has received damage claims relating to the operating activity of the facilities concerned since that date.

On the basis of assessments by its legal counsel, at December 31, 2018 the Company had classified the said damage claims as follows: (i) damages of Euro 7.2 million sought in 41 cases in which an unfavourable outcome is deemed probable; (ii) seven cases of damage claims in which an unfavourable outcome is deemed possible, six of which involve damages of Euro 0.5 million, and one of which cannot be determined; and (iii) 53 cases of damage claims in which an unfavourable outcome is deemed remote, 38 of which cannot be quantified and 15 of which involve damages sought of Euro 2.8 million. A provision for risks of Euro 5.7 million had been set aside at December 31, 2018 to cover damage claims for which the risk of an unfavourable outcome is deemed likely.

Administrative disputes

Rugani Hospital S.r.l. has lodged a pending appeal with the Florence Court of Appeal against judgment no. 234/2017 filed on December 27, 2017, rendered *inter partes* by the Court of Siena, Labour Section, in trial no. 264/2016 in the General Register regarding the classification of relationships with certain workers. On the basis of an opinion from the company's legal counsel, the risk has been deemed "possible" and an accrual of Euro 92 thousand has been made to other provisions for risks and charges.

Hesperia Hospital Modena S.p.A. had lodged a pending appeal against judgment no. 487/17 of the Court of Modena, Labour Section, relating to a dispute initiated by a former employee claiming unlawful dismissal. The company's legal counsel deemed the risk "probable" and the sum of Euro 236 thousand was therefore set aside to other provisions for risks and charges. Following an amicable settlement reached between the parties in September 2018, a total indemnity of approximately Euro 56 thousand was paid to the adverse party by way of compensation, partially drawing on the aforementioned provision for risks and releasing the excess amount.

Villa Von Siebenthal S.r.l. has two ongoing proceedings:

- a proceeding involving SIFIN S.r.l. as adverse party. The dispute arises from the without-recourse factoring agreement for the receivables claimed by Villa Von Siebenthal S.r.l. from the Italian national and regional health system. SIFIN sued Villa Von Siebenthal before the Civil Court of Rome in connection with the above agreement, seeking payment of Euro 220 thousand.
  By entry of appearance and reply of December 20, 2009, the company entered an appearance in the proceedings, petitioning the court to reject the claims made by SIFIN and lodging a counter-claim for a declaratory judgment finding the agreement void and ordering a refund of the sum to the factor by way of interest and fees, while also contesting the manner in which SIFIN forbore the interest accrued from the Lazio Region.
  By interim judgment no. 6850/2014, filed on March 25, 2014, the judge re-opened the proceedings "*in order to determine the exact amount of the parties reciprocal claims by ordering court-appointed expert testimony.*" In the resulting expert witness report filed, the court-appointed expert provided his conclusions regarding the sums owed by Villa Von Siebenthal to SIFIN and those owed by SIFIN to Villa Von Siebenthal.
  Following the hearing for the entry of conclusions held on July 6, 2016, by final judgment no. 2670/2017, filed on February 10, 2017, the judge ordered SIFIN to pay Villa Von Siebenthal the sum of Euro 138 thousand, in addition to the legal fees arising from the claim, expenses and additional amounts due by law.
  SIFIN filed the following appeals against the above judgments before the Rome Court of Appeal:
  - appeal against interim judgment no. 6850/2014 by proceeding entered at General Register No. 3098/2015. By entry of appearance and reply of September 24, 2015, Villa Von Siebenthal entered an appearance in the proceeding, petitioning the court to reject the claims made by SIFIN and also lodging a counter-appeal.
  - appeal against final judgment no. 2670/2017 by proceeding entered at General Register No. 3212/2017. By entry of appearance and reply of July 25, 2017, Villa Von Siebenthal entered an appearance in the proceeding, petitioning the court to reject the claims made by SIFIN and also lodging a counter-appeal.
  - petition for a writ of interlocutory precautionary attachment pursuant to Articles 669-*quater* and 671 of the Italian Code of Civil Procedure, seeking attachment of all sums on deposit in current accounts held by Villa Von Siebenthal, the accounts receivable claimed by the latter and all other items of moveable and/or immoveable property, up to the amount of Euro 161 thousand. By order dated February 12, 2018, the Rome Court of Appeal rejected the petition lodged by SIFIN.
    In the opinion of the company's legal counsel, the risk may be deemed "possible/remote" and hence no liability has been recognized in respect of this proceeding, also considering credit position claimed by Villa Von Siebenthal S.r.l. in respect of Sifin S.r.l.

- A social-security dispute; the company received a request from the INPS regional directorate for Lazio for documents in connection with inspection assessments of the relationship between the supplier Futura soc. coop. and Villa Von Siebenthal S.r.l., and specifically the service agreement between the two companies. Following the inspection, on April 4, 2017 Villa Von Siebenthal S.r.l. received consolidated assessment and notification report no. 2016003251/S1 in which it is claimed that Villa Von Siebenthal S.r.l., by virtue of the service agreement with Futura soc. coop., is jointly and severally liable with this latter company for payments of mandatory social-security contributions for the period from April 2013 to November 2015, amounting to Euro 100 thousand. In the opinion of the company's legal counsel, the risk may be deemed "possible" and hence no liability has been recognized in respect of this proceeding.

In October 2017 L'Eremo di Miazzina was sued by the heirs of Ms. Concetta Ciamprone before the Civil Court of Verbania on claims of negligence and medical practice in connection with the patient's death in 2015. An expert's report concluding that the facility is liable has been filed. In October 2018 the heirs served notice of the suit before the Court of Verbania, seeking damages of approximately Euro 1 million. The Court scheduled a hearing for January 18, 2019, at which L'Eremo di Miazzina entered an appearance, arguing that the claim was inadmissible because the suit had been filed after the end of the mandatory statutory period, seeking further expert witness testimony and disputing the amount of the damages. The Court reserved the case for decision, fixing a deadline for any statements of position.

On the basis of an opinion from the company's legal counsel, the risk associated with this case has been deemed "probable" and an accrual of Euro 200,000 has been recognized.

INPS vs. Casa di Cura Villa Berica S.p.A. By inspection report dated September 15, 2014, the INPS and the Vicenza Local Labour Directorate contested the working arrangements between Casa di Cura Villa Berica S.p.A. and 12 self-employed physicians and the head of the nursing service, claiming that they were to be classified as employees. A fine of Euro 58,333.32 was levied and the sum payable to the INPS was assessed at Euro 5,554,652.00. Casa di Cura Villa Berica S.p.A. appealed this report before the Court of Vicenza, Labour Section, which by judgment dated March 23, 2017 ruled in the company's favour, finding that the working arrangements at issue in the above report qualified as self-employment. The INPS appealed the judgment before the Venice Court of Appeal by appeal served on October 6, 2017, but in respect of two professionals only (one physician and an office worker in charge of nursing services), whom the INPS once again claimed should be treated as employees. On the basis of an opinion from the company's legal counsel, the risk associated with this case has been deemed "possible" and hence no provision has been recognized.

Disputes with local health authorities

Rugani Hospital has lodged a petition before the Regional Administrative Court of Tuscany against the measure by the local health authority for South-eastern Tuscany, arguing that the appealed motions are unlawful due to a lack of competence, in that they introduce restrictions and ceilings on the volumes of services (of a highly complex nature, involving specialist outpatient care, including outpatient surgery) provided to patients residing outside the region, which it is argued could only have been imposed by lawmakers at the level of the central government or the Region of Tuscany. The local health authority for South-eastern Tuscany has essentially (above all within its specific territory of reference) effected an outright unilateral amendment of regional regulations (laid down in motion no. 343 of 2017), which in reality constitute the "external regulatory basis" for the provision of healthcare services and which therefore cannot be modified either by economic operators or local health authorities, given that the latter operate in part as extensions of the Regional Health System, pursuant to Articles 19, 29, 72 and 76 of Regional Law No. 40 of 2005 and Articles 8-*quinquies* and 8-*sexies* of Legislative Decree No. 502 of 1992. It is also argued that the authority has breached and misapplied Tuscany Regional Council Motion No. 343 of 2017, implementing Art. 15, paragraph 14, of the Decree-Law of July 6, 2012 and Art. 1, paragraph 574, of Law No. 208 of December 28, 2015, in open (and intentional) conflict with regional regulations, which it contravenes by imposing spending limits affecting the provision of highly complex inpatient and specialized outpatient care (including outpatient surgery) to residents of other regions, without support from any contract or regional law. The case was discussed before the court, which decided it by judgment no. 1600 of December 11, 2018 rejecting the petition lodged by Rugani Hospital S.r.l.

An appeal against the above judgment by the Regional Administrative Court of Tuscany before the Council of State is therefore being prepared. The arguments on which the appeal is founded have to do with the provisions of the new Tuscany Regional Council Motion No. 1220 of 2018, which post-dates the trial of the first instance, and in which the Region of Tuscany confirms and reiterates its intention of applying the regulatory provisions of

Tuscany Regional Council Motion No. 343/17 until the 2018 annual period, including the possibility of providing “highly-specialized” services to patients from other regions, and thus without imposing any ceiling on Rugani Hospital.

On the basis of an opinion from the company’s legal counsel, the risk has been deemed “probable” and an accrual of Euro 773 thousand has thus been recognized.

The following disputes are pending between L’Eremo di Miazzina S.p.A., on the one hand, and the Verbano-Cusio-Ossola local health authority and the Piedmont Region, on the other. A brief description of the ongoing proceedings is provided below:

- L’Eremo sued the V.C.O. local health authority for damages of over Euro 3.8 million due to breach of contract. In its entry of appearance, the local health authority disputed the damage claim, issued a summons to appear to the Piedmont Region and lodged a counter-claim against L’Eremo di Miazzina S.p.A. of approximately Euro 3,600 thousand due to unauthorized hospitalization in breach of Regional Council Motion No. 70 of 1995. Court-appointed expert testimony was requested and granted, and the expert found that there was no basis for the counter-claim lodged by the Verbano-Cusio-Ossola local health authority and/or the region. The case was decided by judgment of January 13, 2017, which rejected the damage claim brought by L’Eremo di Miazzina S.p.A. on the ground that the circumstances were covered by the settlement already reached between the company and the health authority relating to the hospital portion of the budget of L’Eremo di Miazzina S.p.A. On the basis of the expert witness’s conclusions, the court rejected the counter-claim lodged by the Verbano-Cusio-Ossola local health authority, and this decision will be final unless appealed.
  The above decision was appealed and the Verbano-Cusio-Ossola local health authority lodged a further counter-appeal. The appeal was decided by judgment rendered on August 2, 2018 upholding the judgment of the first instance and thus rejecting both the appeal by L’Eremo and the counter-appeal by the Verbano-Cusio-Ossola local health authority and ordering the parties to pay their respective costs. The company is assessing the most appropriate action to take to protect its positions.
  On the basis of an opinion from the company’s legal counsel, the risk associated with this case has been deemed “possible” and hence no provision has been recognized.

- Dispute between the Verbano-Cusio-Ossola local health authority and L’Eremo di Miazzina S.p.A. regarding healthcare services in 2014, 2015 and 2016. In a letter dated July 14, 2017, the Verbano-Cusio-Ossola local health authority requested that the company issue various credit notes in respect of the years indicated above, claiming a reduction due to a purported lack of continuity of care. The company rejected this claim on the basis that it had not exceeded the threshold triggering the above reduction for patients from Piedmont, and that the said reduction – particularly for the years 2014 and 2015 – could not be applied to out-of-region patients, especially in the light of the position taken by the Piedmont Region in its Regional Council Motion of November 2016. Finally, the company also argued that it had never exceeded the reduction thresholds due to a lack of continuity in care in 2016 as well.
  On the basis of an opinion from the company’s legal counsel, the risk associated with this case has been deemed “probable” and an accrual to the doubtful debt provision of Euro 650 thousand has thus been recognized.

- Dispute between L’Eremo di Miazzina S.p.A. and the Piedmont Court of Auditors, which in March 2013 served a notice of damages to the Treasury in respect of the period of 1999 to 2006, claiming a breach of Regional Council Motion No. 70 of 1995. The company submitted a position statement and the proceeding was then concluded by judgment no. 153 of July 15, 2015, in which L’Eremo di Miazzina S.p.A. entered an appearance, arguing that the alleged damages to the Treasury had become prescribed, a claim that was granted by the Court. Other facilities against which unfavourable judgments had been rendered lodged appeals, and the Public Prosecutor’s Office lodged counter-appeals, including in respect of the company’s position, resuming the proceeding.

On the basis of an opinion from the company's legal counsel, the risk associated with this case has been deemed "possible" and hence no provision has been recognized.

- Disputes with the Local Labour Directorate of Novara – Verbano-Cusio-Ossola. On March 8, 2016 inspectors issued report no. 000/2016-234-01, claiming that employees had not been granted weekly and daily time off. L'Eremo submitted position statements challenging the report and its representatives were questioned, reiterating its position and the motions for dismissal entered.
  According to the company's legal counsel, the risk of an unfavourable outcome is "remote". Consequently, no provision has been recognized.

- On June 14, 2018 inspectors from the Local Labour Directorate of Novara – Verbano-Cusio-Ossola issued assessment report no. 000/2017-594-01, claiming that the employees had not received their holiday leave within 18 months of becoming entitled to it. L'Eremo submitted position statements challenging the report and company representatives were questioned, reiterating its position and the motions for dismissal entered.
  According to the company's legal counsel, the risk of an unfavourable outcome is "remote". Consequently, no provision has been recognized.

  On June 5, 2018 inspectors from the Local Labour Directorate of Novara – Verbano-Cusio-Ossola issued report no. 000-2018-525-02 disputing the position of several self-employed nurses. Position statements refuting this report were prepared and filed on November 6, 2018, together with documents and motions for personal hearings and the relevant motion for dismissal. The Labour Inspectorate has yet to reply. According to the company's legal counsel, the risk of an unfavourable outcome is "possible". Consequently, no provision has been recognized.

Note 41 Other information

41.1 Related party transactions

Transactions and balances with related parties are illustrated in the tables below. The companies indicated are considered related parties as directly or indirectly related to the majority shareholders of the Garofalo Health Care Group.

Pursuant to Consob Motion No. 17221 of March 12, 2010, it is reported that in the first half of 2018 and 2017 the Group did not conclude any significant transactions or transactions with a significant effect on the Group's financial position or operating result for the year with related parties.

Note 1.4 contains information on the Group's structure, including details regarding subsidiaries and the parent company.

The following table shows the total amount of transactions with related parties during the period ended December 31, 2018:

Dec 31, 2018	Receivables		Payables		Costs		Revenues	
in Euro thousands	Fin./Tax	Trade/Other	Fin./Tax	Trade/Other	Fin.	Com.	Fin.	Com.
Maria Laura Garofalo	-	-	-	136	-	977	-	-
Mariano Garofalo	-	-	-	15	-	88	-	-
Alessandro Maria Rinaldi						57		

Alessandra Rinaldi						4		
Claudia Garofalo	-	-	-	2	-	71	-	-
Raffaele Garofalo SA.PA		798		1,747	-	-	-	-
Larama 98 S.p.A.	-	-	5,720	1,431	167		-	-
An.rama	-	2	-	4	-	-	-	-
Aurelia Hospital	-	-	-	20	-	-	-	-
Total	**0**	**800**	**5,720**	**3,355**	**167**	**1,197**	**0**	**0**

41.2 Significant events after December 31, 2018

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 center 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.

41.3 Remuneration of the Board of Directors and Board of Statutory Auditors

The remuneration paid to members of the Board of Directors of Garofalo Health Care S.p.A., in all capacities and forms, during the years ended December 31, 2018 and December 31, 2017 amounted to Euro 2,023 thousand and Euro 1,052 thousand, respectively.

The remuneration accrued to the Board of Statutory Auditors of Garofalo Health Care S.p.A for the years ended December 31, 2018 and December 31, 2017 amounted to Euro 315 thousand and Euro 287 thousand, respectively.

The following table shows the remuneration paid to members of the Board of Directors of Garofalo Health Care S.p.A. and its direct or indirect subsidiaries, in all capacities and forms, during the year ended December 31, 2018:

In Euro thousands	At December 31, 2018
Emoluments for office	
Statutory Auditors	315
Directors	2,023

The following table shows the remuneration paid to members of the Board of Directors of Garofalo Health Care S.p.A. and its direct or indirect subsidiaries, in all capacities and forms, during the year ended December 31, 2017:

In Euro thousands	At December 31, 2017
Emoluments for office	
Statutory Auditors	287
Directors	1,052

41.4 Independent auditors' fees

The table below breaks down independent auditors' fees by type of service rendered:

Type of service	Service provider	Recipient	Fees *in Euro thousands*
Audit	Auditor of the Parent Company	Parent Company	48
Tax return certification services	Auditor of the Parent Company	Parent Company	3
IPO process certification services	Auditor of the Parent Company	Parent Company	450
Other IPO process services	Auditor of the Parent Company	Parent Company	535
Sub-total			**1,036**
Audit	Auditor of the Parent Company	Subsidiaries	154
Tax return certification services	Auditor of the Parent Company	Subsidiaries	27
Other services	Auditor of the Parent Company	Subsidiaries	0
Sub-total			**181**
Total			**1,217**

41.5 Number of employees

The following table provides a concise comparison of the number of employees in 2018 by category with the previous year.

Employees by category	**Number of employees at 31/12/2018**	**Number of employees at 31/12/2017**
Executives	8	3
White-collar	255	254
Doctors	26	29
Technicians	120	124
Nurses/auxiliaries	612	622
Blue-collar	57	51
Total	**1,078**	**1,083**

41.6 Positions or transactions arising from atypical and/or unusual transactions

In accordance with Consob Communication No. DEM/6064293 of July 28, 2006, the company did not undertake any atypical or unusual transactions as set out in the Communication.

41.7 Sums collected from local health authorities

Pursuant to Art. 1, paragraph 125, of Law No. 124/2017, in 2018 GHC Group companies collected the total sum of Euro 124,361 thousand from the Italian government for healthcare services rendered. The following table breaks down the figures by payer for each Group company:

Collected from P.A. 2018 GHC Group (amounts Euro thousand)	
Company	**Collected**
Eremo di Miazzina S.p.A.	**12,316.54**
of which ASL VCO	11,703.83
of which ASL Novara	351.82
of which ASL Vercelli	91.37
of which ASL Biella	104.08
of which Municipality of Stresa	0.64
of which Municipality of Trarego	0.06
of which Municipality of Miazzina	0.03
of which Community of Montana del Cusio	0.03
of which Municipality of Cannobio	2.42
of which Consorzio Servizi Sociali del VCO	17.50
of which City of Paderno Dugnano	30.17
of which Gestore dei Servizi Energetici Spa	14.59
Villa Von Siebenthal s.r.l.	**4,579.67**
of which ASL ROMA 6	4,307.36

Collected from P.A. 2018 GHC Group (amounts Euro thousand)	
Company	**Collected**
of which ASP AGRIGENTO	5.00
of which ASL FOGGIA	3.83
of which ASL CASERTA	57.43
of which ASL 1 AVEZZANO – SULMONA – L'AQUILA	5.99
of which Municipality of Albano Laziale	27.53
of which Municipality of Aprilia	8.37
of which Municipality of Ardea	20.41
of which Municipality of Ariccia	23.56
of which Municipality of Castel Gandolfo	1.60
of which Municipality of Ciampino	8.89
of which Municipality of Fiano Romano	7.95
of which Municipality of Fiumicino	16.34
of which Municipality of Frascati	4.04
of which Municipality of Marino	5.92
of which Municipality of Monterotondo	6.10
of which Municipality of Nettuno	0.90
of which Rome Capital	55.32
of which Municipality of Tivoli	13.13
CMSR s.r.l.	**6,471.80**
of which Azienda Sanitaria ULSS n. 8 Berica	6,471.80
FIDES Servizi	**na**
GENIA IMM.RE	**na**
ROEMAR s.r.l.	**1,421.82**
of which ASL3 Genovese	1,405.65
of which Municipality of S.Olcese	13.72
of which Municipality of Crocefieschi	2.46
CENTRO RIABILITAZIONE s.r.l.	**3,266.54**
of which ASL3 Genovese	3,243.73
of which Municipality of Genoa	22.81
FI.D.ES. MEDICA s.r.l.	**3,355.06**
of which ASL3 Genovese	3,355.06
PRORA s.r.l.	**1,046.16**
of which ASL4 Chavarese	72.59
of which ASL3 Genovese	829.69
of which ASL4 Torino	106.84
of which ASL2 Savonese	15.45
of which ASL2 Lanciano	15.73
of which ASL1 Torino	5.86

Collected from P.A. 2018 GHC Group (amounts Euro thousand)	
Company	**Collected**
Casa di Cura Prof. Nobili S.p.A.	**8,194.14**
of which Azienda USL of Bologna	8,014.93
of which Azienda USL of Modena	48.41
of which Azienda USL of Parma	2.56
of which Azienda USL of Piacenza	0.12
of which Azienda USL of Romagna	18.10
of which Azienda USL of Imola	9.74
of which Azienda USL of Ferrara	24.28
of which Ortopedico Rizzoli of Bologna	0.66
of which Azienda Osp. Di Bologna Policlinico S. Orsola - Malpighi	0.11
of which INAIL - Istituto Nazionale Ass. Workplace accidents	3.58
of which Unione dei Comuni dell'Appennino Bolognese	71.64
Villa Berica S.p.A. da ULSS 8 BERICA	**17,616.06**
Villa Garda S.p.A. da ASL 9	**8,659.97**
Hesperia Hospital S.p.A.	**41,558.93**
of which ASL FERRARA	399.49
of which ASL BO.S'ORSOLA MALPIGHI	410.45
of which ASL IMOLA	54.67
of which ASL REGGIO EMILIA	1,057.90
of which ASL PARMA	158.12
of which ASL BOLOGNA	706.20
of which ASL ROMAGNA	326.92
of which OSP.MODENA	212.10
of which ASL MODENA	38,200.63
of which ACCADEMIA MILITARE	4.57
of which INAIL MODENA	27.90
Rugani Hospital s.r.l.	**15,874.37**
of which from ASL	15,844.82
of which from INAIL	29.55
Total	**124,361.62**

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