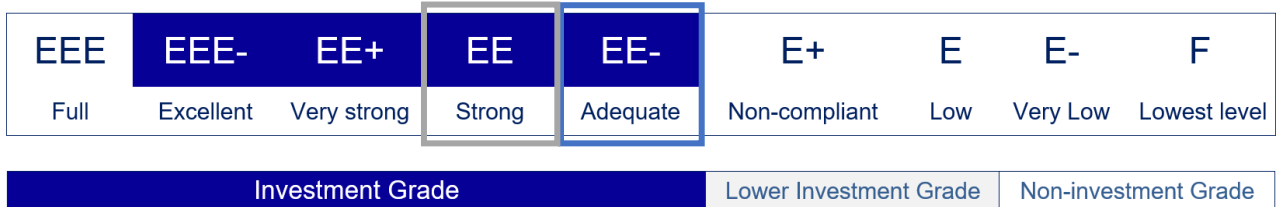


Standard Ethics Rating [SER]: **EE-** *Outlook Positive*  
 Long Term Expected SER [2 to 3 years]: **EE**

**Issuer:** Garofalo Health Care S.p.A.  
**Listing:** Milan Stock Exchange  
**ISIN:** IT0005345233  
**Market Capitalisation:** 515.4 Bln EUR  
**Sector:** Health Care  
**Industry:** Health Care and Services  
**Type of rating:** Corporate Standard Ethics Rating [SER]  
**Date:** 8<sup>th</sup> November 2021  
**Expiry Date:** 26<sup>th</sup> October 2022  
**Last action:** 8<sup>th</sup> November 2021  
**Previous SER:** EE- *Outlook Stable*  
**Type of document:** Rating Report

Level of Compliance



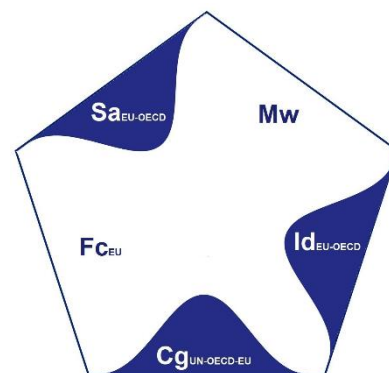
Summary

Snapshot (adj.)

Garofalo Health Care S.p.A. has been active since 2000 in the field of private accredited healthcare in Italy. Listed since 2018, in 2021 it was included as a component of Euronext Star. GHC launched a significant process of geographical and sectoral diversification throughout Italy, relying on a stable controlling ownership structure. The Company's management is committed to a strategy of innovation. GHC's implementation of its ESG (Environmental, Social, Governance) policies is a product of this strategy and has given rise to a good system of non-financial reporting, a sustainability governance that also includes a *Risk Management* project on non-financial issues, a number of ESG policies and (starting in 2021) a long-term incentives plan linked to sustainability rating and to its energy efficiency and environmental sustainability performance.

Overall, GHC's strategies are aligned with the voluntary Guidelines issued by the UN, the OECD and the EU.

The long-term outlook is positive.



Each side of the diamond represents one of the five "standards" measured by the Standard Ethics Algorithm. The symbolic image of a standard normal (Gaussian) distribution illustrates in an intuitive form the areas in which the company is likely to take action, or should take action.

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## BACKGROUND, METHODOLOGY, RATING

New elements – such as the evolution of the Internet – have created open and transparent financial markets, in which growing segments of the population participate. This has resulted in:

- greater attention to **extra-financial** factors, both tangible and intangible, with repercussions on the level of trust and credibility of issuers;
- new assessments of the quality and long-term durability of listed financial products, related to both companies (stocks, bonds, green bonds) or institutional issuers (such as government bonds).

Standard Ethics has ascertained that we have reached the end of the classic financial era, which was focused exclusively on economic variables. Despite their fallibility and volatility, regulated markets have evolved and are proving to be the most important and independent system in assessing the long-term **sustainability**<sup>1</sup> of numerous human activities. The Standard Ethics Rating helps refine the strategies, language and ways in which an issuer operates on the market.

### STANDARD ETHICS

Standard Ethics Ltd (SE) is a Self-Regulated Sustainability Rating Agency that issues Non-Financial Solicited Ratings to companies and sovereign nations. The Standard Ethics® brand has been around since 2004 in the world of “sustainable finance” and ESG (Environmental, Social and Governance) studies.

Standard Ethics is supervised by internal control and audit offices. The composition of the Board complies with the international guidelines on diversity of nationality, professional skills, independence and gender equality

### STANDARD ETHICS RATING

The Standard Ethics Rating, which has been put to the test over the last 15 years, is a Solicited Sustainability Rating (SSR). It has 3 main characteristics:

- **Solicited:** it is issued only at the request of an applicant, by means of a direct, bilateral and regulated agreement.
- **Standard:** it is always comparable to other ratings, as the methodology and issuance parameters are aligned to pre-established guidelines, and the algorithm takes into account the size and typology of the issuer.
- **Independent:** in order to remain third party to investors, Standard Ethics does not provide any individual investor with advice, analysis or data regarding companies under rating, it does not use the data gathered for asset management advisory services (to banks or funds) and it does not share it with third parties.

In short, the Standard Ethics Rating indicates the level of compliance by companies (and sovereign nations) in the field of sustainability on the basis of documents and guidelines published by:

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<sup>1</sup> *Standard Ethics synthesizes its vision in three cornerstones of **sustainability**:*

*1. Sustainable development policies are about the generations of the future; they have taken on a global dimension; and they are implemented on a voluntary basis. It is up to the main supranational organisations, officially recognised by nations across the globe, to establish the definitions, guidelines and strategies related to sustainable development through science.*

*2. Economic entities do not define the guidelines, goals and strategies on sustainability: they pursue them to the extent deemed possible.*

*3. Measuring the sustainability of economic entities means providing comparable and third-party data on their overall compliance with international guidelines.*

- The European Union;
- The Organisation for Economic Cooperation and Development (OECD);
- The United Nations (UN).

Standard Ethics uses an analyst-driven rating process, meaning the analysis performed does not require applicants to fill out forms and questionnaires or to provide any documents other than those already available and that Standard Ethics does not use artificial intelligence or software either in data analysis or in decision-making.

## SE ANALYSIS UNIT

According to the methodology, guidelines and procedures of Standard Ethics, the Analysis Unit working on this rating has carefully analysed the following areas based on the set-up of the Client (the areas have been divided into about **220** analysis points):

1. MARKET AND COMPETITORS (13 analysis points)
2. MARKET AND DOMINANT POSITIONS (10 analysis points)
3. CONTRACTS, FINANCINGS AND PUBLIC AIDS (7 analysis points)
4. MARKET DISTORTIONS, FAVOURITISM & CORRUPTION (8 analysis points)
5. OWNERSHIP, SHARE CAPITAL AND SHAREHOLDERS (8 analysis points)
6. INTERNAL VOLUNTARY RULES ON OWNERSHIP EXERTION (8 analysis p.)
7. INDEPENDENCE AND CONFLICT OF INTERESTS (12 analysis points)
8. MINORITY MEMBERS PROTECTIONS AND DIRECTORS APPOINTMENT (7 analysis points)
9. COMMUNICATION, INFORMATION AND TRANSPARENCY (5 analysis points)
10. BOARD OF DIRECTORS AND EXECUTIVE GROUP TRANSPARENCY (9 analysis points)
11. INTERNAL VOLUNTARY RULES REGARDING MANAGEMENT (10 analysis p.)
12. INDEPENDENCE AND CONFLICT OF INTERESTS (13 analysis points)
13. DISCLOSURE AND TRANSPARENCY (22 analysis points)
14. PARTICIPATION AND VOTE IN GENERAL MEETINGS (5 analysis points)
15. EMPLOYMENT AND HUMAN RESOURCES SELECTION (11 analysis points)
16. HEALTH, SAFETY AT WORK AND SOCIAL DIALOGUE (16 analysis points)
17. ADAPTATION TO CHANGES (6 analysis points)
18. ENVIRONMENT (17 analysis points)
19. CONSUMERS AND QUALITY (9 analysis points)
20. SCIENCE AND TECHNOLOGY (4 analysis points)
21. LOCAL COMMUNITIES (3 analysis points)
22. BUSINESS PARTNERS (9 analysis points)
23. HUMAN RIGHTS (6 analysis points)
24. EUROPEAN STRATEGIES (2 analysis points)

## RESEARCH OFFICE AND RATING COMMITTEE

The Research Office compiles a Final Report and issues a rating based on its review of the work of the Analysis Unit. The Rating Committee analyses the conformity of the collected data and the ensuing conclusions and it approves the issued rating. Chinese Walls between the Analysis Unit, the Research Office, the Rating Committee and all other company offices ensure maximum transparency. A Compliance Officer oversees all steps and processes.

## S.E. ALGORITHM OF SUSTAINABILITY ©

Standard Ethics has developed a proprietary algorithm based on five “standards” and a premium variable - “k” - to process the data provided by the Analysis Unit ( $F_{CEU}$ ;  $S_{aEU-OECD}$ ;  $Mw$ ;  $I_{dEU-OECD}$ ;  $C_{gUN-OECD-EU}$ ). The balance between the five “standards” is the final pre-assessment underlying the rating.

**$F_{CEU}$  = Fair competition.** Main areas: Fair competition, including analysis of dominant positions, market distortions, cartels. Factors that can affect the other variables (Sources: the EU, and the main OECD regulators).

**$S_{aEU-OECD}$  = Shareholders’ agreements.**

Main areas: Shareholders’ agreements, rights of minority shareholders, access to information (Sources: the EU and OECD, and the main OECD regulators).

**Mw = Market weight.**

Main areas: Shareholding structure, weight and type of major shareholders, potential conflicts of interest in relation to other variables (Sources: mainly OECD regulators).

**Id<sup>EU-OECD</sup> = Independent directorship.**

Main areas: Structure and quality of boards and executive groups, ESG Risk and Control Management system, Risk Analysis. This standard is most likely to mitigate the risks associated with other variables and can increase the "k" variable. (Sources: the EU and the OECD).

**Cg<sup>UN-OECD-EU</sup> = Corporate Governance and Sustainability.**

Main areas: Overall assessment of applicant's ESG strategies and corporate governance (in terms of shareholding structure and sustainability) by weighting the various elements also in relation to the balance of the other variables (Sources: the EU, OECD and UN).

**k = Sustainability at Risk (SaR).** Statistical projections.

$$\frac{(F_{cEU} + S_{aEU-OECD} + I_{dEU-OECD} + M_w \cdot f(S_{aEU-OECD}) \cdot f(I_{dEU-OECD}) + C_{gUN-OECD-EU} \cdot f(F_{cEU}) \cdot f(I_{dEU-OECD}))}{10} + k$$

**ISSUED RATING**

Standard Ethics Rating [SER]: **EE-**  
Long Term Expected SER [2 to 3 years]: **EE**

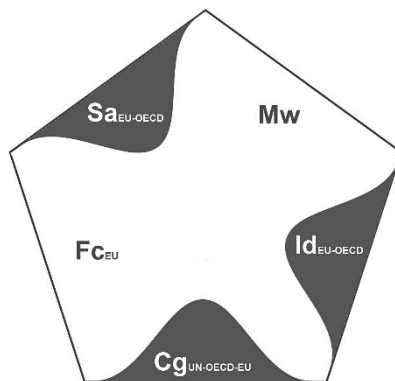
*Outlook Positive*

**ALGORITHM – INPUT VALUES (SUMMARY)**

The values for each standard are between **0 and 2**.  
Assigned and input values are as follows:

- F<sub>cEU</sub>** = 1.9
- S<sub>aEU-OECD</sub>** = 0.3
- M<sub>w</sub>** = 0.2
- I<sub>dEU-OECD</sub>** = 1.3
- C<sub>gUN-OECD-EU</sub>** = 1.2

Each side of the diamond represents one of the five "standards" measured by the Standard Ethics Algorithm. The symbolic image of a standard normal (Gaussian) distribution illustrates in an intuitive form the areas in which the company is likely to take action, or should take action.



## GAROFALO HEALTH CARE REPORT

### 1. MARKET AND DOMINANT POSITIONS

**Garofalo Health Care S.p.A.** (hereafter, the “Company” or the “Group”, or simply “GHC”) is active in the field of private accredited healthcare.<sup>2</sup> The Group, which developed out of the professional activity and entrepreneurial spirit of the brothers Raffaele, Antonio and Mario Garofalo in the second half of the 1950s in Rome, began as a private accredited group offering treatment primarily for acute patients in its five healthcare facilities. The company that today is called Garofalo Health Care S.p.A. was established in 2000, under the leadership of Raffaele Garofalo and his daughter Maria Laura Garofalo. This new Company launched a process of geographical and sectorial diversification as part of its growth strategy, by both strengthening their existing facilities and acquiring further institutions in other regions.<sup>3</sup> In 2018 the Group was listed on Euronext Milan; and, as of 2021, on Euronext STAR Milan.

The Company operates in a market in which activity is governed by strict regulations and in which the national legislation requires companies to have an authorisation to exercise healthcare activities, to be accredited and to submit to budget supervision when necessary.<sup>4</sup> It belongs to the category of entities providing “public services of general interest” to the State of Italy, according to the definition in the European Commission’s 2003 Green Paper on Entrepreneurship.<sup>5</sup>

As of 30 June 2021, GHC possesses **26** healthcare facilities in different regions, each providing a variety of specialties, as well as **4** facilities belonging to Il Fiocco S.c.a.r.l. (of which GHC owns 40% through its subsidiary Fi.d.es Medica S.r.l.). GHC is present in 8 regions of Northern and Central Italy.<sup>6</sup>

The Company has adopted a “Buy & Build” strategy, implemented by means of continuous acquisitions and the construction of new facilities.

GHC does not possess any important shareholdings in other industrial groups competing on the same market.<sup>7</sup> It does not occupy any dominant positions. It does not enjoy the benefits of any privileged position. All the Group’s important shareholdings are properly reported on the corporate website, fully disclosed, and accounted for.

---

<sup>2</sup> Services are provided by both Public and Private institutions: healthcare is provided for the most part strictly according to the regulations and protocols pertaining to the severity/staging of the patient’s pathology. The State funds healthcare through the National Healthcare Fund and through funds allocated to Regions; it is responsible for the management of most services provided.

<sup>3</sup> The goal was to “acquire healthcare facilities located in the most virtuous Italian regions, i.e. those with good economic activity and financial stability, capable of providing healthcare services matching the needs of their communities; providing healthcare and social welfare support in all sectors, from hospitalization to outpatient medical treatment to welfare support.” Source: Non-Financial Statement (NFS) 2019, pages 10-14.

<sup>4</sup> In Italy the activity of private healthcare companies (called “case di cura” or “private hospitals”) is governed by regional legislation (since healthcare provision is a shared competence, between the State and the Regions) which also regulates supervision over such activities. In order for private healthcare facilities to be allowed to provide services as equals to public hospitals, the Italian legislation has introduced an accreditation system, whereby the Region (usually) must assess the private facility’s compliance with the specific requirements deemed necessary for providing hospitalization and treatment, requirements which are of the same standard as those expected of State-owned facilities (public hospitals and scientific research institutions providing hospitalization and treatment), and then issue the authorisation. As far as healthcare is concerned, in compliance with Article 117, para 3, of the Constitution, the State has the legislative power to establish the fundamental principles, while the Regions are vested with concurrent legislative powers, and may regulate matters in full observance of the principles established by the State. Source: Prospectus, page 241

<sup>5</sup> In Italy access to the market by a new service-provider is allowed only once a new authorisation and a new concession are granted. The State and the Regions have concurrent powers to issue new authorisations. The regulations disciplining the healthcare sector are fully in harmony with the European Union Regulations on security, safety, healthcare and competition, ensuring that all operating healthcare undertakings provide services that are up to standard.

<sup>6</sup> The Regions are: Piedmont, Lombardy, Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Liguria, Tuscany and Lazio. The acquisition of 100% ownership of XRay One S.r.l., a medical diagnostics facility and specialist treatment centre accredited with the National Healthcare Service and located at Poggio Rusco, in the province of Mantua, signed on 23 July 2020, increased the regions from 7 to 8. Source: Press Release, 23 July 2020.

<sup>7</sup> CEO Maria Laura Garofalo, as well as being a GHC shareholder, is also the owner of Società Larama ‘98 S.p.A., which manages private “case di cura” and hotels, among its other activities.

The Company addresses the issue of **fair competition** in its corporate Code of Ethics,<sup>8</sup> which is binding for all the Group's companies. Full compliance with the Code of Ethics is monitored by the Supervisory Body (SB).<sup>9</sup>

## 2. CONTRACTS, FINANCINGS AND PUBLIC AIDS

The Company has not benefited from State aid. It operates in a regime of fair competition.

It collaborates actively with the national institutions and with those Regions where its facilities are located; the services it provides are remunerated according to clearly defined and fully disclosed tariff schedules.<sup>10</sup> This practice does not violate fair competition principles and complies fully with the overarching European regulations on the issue.

## 3. MARKET DISTORTIONS, FAVOURITISMS AND CORRUPTION

The financial success of GHC's activities depends on its relationship with the public administration; for this reason, the **risk of corruption**, favouritism, conflicts of interest, is clearly defined and regulated in the corporate Code of Ethics, in the Organisational Model as required by Legislative Decree 231/2001 (Model 231), and in the Company's internal procedure rules.

As was stated in earlier Reports, the system of procedures is based on the Guidelines issued by Confindustria (the Confederation of Italian Industry) and the Guidelines of the Italian Association of Private Hospital Institutions (AIOP).

Issues relating to **whistleblowing**<sup>11</sup> are suitably addressed in the internal procedure rules and are monitored by the SB. The rules envisage specific procedures for receiving, analysing, and acting upon reports of violations.

Through both the principles enunciated in the Code of Ethics and the internal procedure rules, GHC has addressed the matter of **Anti-Money Laundering**.<sup>12</sup>

The Company has adopted some procedures specifically intended to combat **tax avoidance** and aggressive taxation policies.<sup>13</sup>

## 4. INTERNAL VOLUNTARY RULES ON OWNERSHIP

GHC is **listed on Euronext STAR Milan**.

It is a component of FTSE Italia Mid Cap index. In 2021 its ordinary shares were accepted for transaction on the STAR segment of Euronext Milan.<sup>14</sup>

<sup>8</sup> As is stated in the Company's Code of Ethics, "GHC considers honesty and compliance with all Italian laws, in particular in the various Regions where the Group's health facilities operate, as essential principles of its activity. GHC does not tolerate or favour any form of behaviour that is contrary to existing legislation, and/or that tends to favour acting against the law, even if in the interest of GHC. (...) GHC believes that company conduct must always be pursued in full compliance with the provisions of the law, protecting the freedom of collective decisions, and maintaining transparent and accountable conduct, even with creditors." Source: Code of Ethics, pages 6 and ff.

<sup>9</sup> Source: NFS 2020, page 53.

<sup>10</sup> Source: corporate source.

<sup>11</sup> The term whistleblowing includes all those procedures intended to ensure that an employee reporting a violation is guaranteed anonymity and protection against reprisals. The most recent provision in the Italian legislation on whistleblowing dates from 2017, when Law 179 was passed on 30/11/2017 and published in the Official Journal on 14/12/2017. The issue of whistleblowing was addressed again by the European Commission in 2018, in terms of its implementation, based on the results of the campaign gathering comments and suggestions that ended on 29 May 2018. A subsequent Directive on whistleblowing was amended and then granted final approval by the European Parliament on 19 April 2019. The most recent European Directive is EU 2019/1937, approved on 23 October 2019, aimed at providing protection for persons reporting breaches of Union law. It is therefore likely that Italian legislation will soon be updated by the competent bodies in order to include the new guidelines. In this regard, the following measures undertaken by the European Commission are worth mentioning: Draft Directive "On the protection of persons reporting on breaches of Union law" COM (2018) 218 final 2018/0106 (COD) and the Communication on "Strengthening the protection of whistleblowers at European Union level" COM (2018) 214 final.

<sup>12</sup> Source: Code of Ethics, pages 8-9 and Model 231.

<sup>13</sup> As was mentioned in the previous Report, the Company has adopted a "PA DACFO 04" procedure in the account-closing phase, in compliance with Law 262, which formalizes the procedure and includes all the transactions necessary for the correct calculation of taxes due. Starting in 2021 the Company's Tax Strategy is reported in the Non-Financial Statement. Source: DNF 2020, pages 51 and ff.

<sup>14</sup> Since 25 March 2021, GHC has entrusted Equita SIM with the task of acting as its specialist operator, in compliance with the Regulation and with the Instructions issued by the Italian Stock Exchange. Source: GHC Press Release, 18 March 2021.



GHC's share capital amounts to EUR **31,570,000**, comprising **90,200,000** ordinary shares with no par value.<sup>15</sup>

GHC's main shareholder is **Larama '98 S.p.A.** which holds **50.78%** of all share capital. **Maria Laura Garofalo** directly holds **12.02%** of share capital; **PII 4 S.a.r.l.** owns **9.12%** of shares. The remaining **36.48%** is traded on the market.<sup>16</sup>

No significant shareholder of GHC is an off-shore company.

GHC's By-laws envisage the possibility of benefiting from **increased voting rights**. The controlling shareholder has up to the present waived this privilege.<sup>17</sup>

GHC has not adopted any form of **EFPP** (Employee Financial Participation) policy, promoting company ownership for staff persons.

The Company has not issued ESG bonds, nor do there appear to be any plans to issues bonds with ESG characteristics. There do not appear to be any listed derivative instruments with GHC shares as underlying assets.

## 5. OWNERSHIP AND CONFLICTS OF INTEREST

No significant shareholder is a public authority whose functions include regulating the market on which GHC operates.

The Company is drafting a revised version of its Code of Ethics, which will also address the issue of conflicts of interest in relation to **family ties and interests**.<sup>18</sup>

GHC has also announced that it is working on a programme aimed at monitoring donations and gifts.<sup>19</sup>

## 6. PROTECTION OF MINORITY SHAREHOLDERS AND APPOINTMENT OF DIRECTORS

The protection of minority shareholders is addressed by GHC in full compliance with the law and the principles upheld by existing market regulations. There are no specific policies on the subject. The members of the Board include independent Directors.<sup>20</sup>

The Company has adopted provisions to ensure that minority shareholders and investors have full **access to significant and sensitive information**.

## 7. INTERNAL VOLUNTARY RULES ON DIRECTORS

GHC has adopted a traditional **management and control system**, based on the establishment of two bodies appointed by the General Meeting of Shareholders: the **Board of Directors (BoD)**, responsible for company management and its business strategies, and the **Board of Statutory Auditors**, as a controlling body.<sup>21</sup>

The **Board of Directors** is granted broad-ranging powers to ensure ordinary and extraordinary management of the Company.<sup>22</sup>

<sup>15</sup> Source: Press Release, 26 January 2021.

<sup>16</sup> Source: Directors' Report, 30 June 2021.

<sup>17</sup> The Company "has received notice from its Controlling Shareholder Maria Laura Garofalo that she has waived the privilege of availing of the increased voting rights she was entitled to." Source: GHC Press Release, 1 March 2021.

<sup>18</sup> Source: corporate source. It will be finalised and adopted by the time the Non-Financial Statement 2021 is approved and issued.

<sup>19</sup> Source: corporate source.

<sup>20</sup> See following paragraph.

<sup>21</sup> Source: Report on Corporate Governance and Ownership Structure 2020.

<sup>22</sup> Except for those functions that Italian law reserves for the General Meeting of Shareholders.

On **30 April 2021** a new BoD was appointed: it consists of **11** members, of whom **6** are women.<sup>23</sup> There are **4** independent members, as compared to 3 in the previous BoD.<sup>24</sup>

Independent members do not make up the majority of the Board of Directors.

The Board's composition does take into consideration the need for **pluralism of competences and skills**, but not of **nationalities**.

The BoD successfully **achieves gender equality**.

The Board of Directors has duly established an **Appointments and Remuneration Committee**,<sup>25</sup> whose function is to propose and advise, and a **Control, Risks and Sustainability Committee**,<sup>26</sup> whose functions include collecting information, making proposals and giving advice.

The presence of representatives of employees is not envisaged.

There are **no cases of interlocking directorships** within the Group.

There are **family ties** among the members of the Board of Directors.<sup>27</sup>

All Directors are bound by the **provisions** which GHC has **voluntarily chosen to adopt** and include in its **Code of Ethics**, the main instrument containing internal rules of conduct adopted voluntarily and not required by law. Furthermore, in 2020 the Company also introduced into its governance procedures a model for the supervision and management of sustainability issues addressed to the entire Group.<sup>28</sup>

The Supervisory Body is the entity to which all reports on violations must be addressed. The SB is tasked with investigating such reports. **All the offices, departments, functions of the Company**, including top management, are subject to supervision by the SB.<sup>29</sup>

In 2021 GHC adopted a **Policy on ensuring diversity** in its management and supervision bodies.<sup>30</sup>

## 8. DIRECTORS, CONFLICT OF INTERESTS AND RELATED COMMITTEES

As stated in previous Reports, there do not appear to be any Directors who are involved in national or local government institutions, in judicial bodies, in entities granting licences or controlling markets. There are no cases of cross-directorships.

The independence requirements of Directors are those envisaged in the TUF (the Italian Consolidated Law on Finance) and those in the market regulations.

<sup>23</sup> "As of 30 April 2021 the BoD consisted of the following members: Alessandro Maria Rinaldi (President), Maria Laura Garofalo (Chief Executive Officer), Claudia Garofalo, Giuseppe Giannasio, Alessandra Rinaldi Garofalo, Guido Dalla Rosa Prati, Javier de la Rica, Federico Ferro Luzzi, Nicoletta Mincato, Giancarla Branda, Franca Brusco. Their CV's are available on the corporate website." Source: Press Release, 30 April 2021.

<sup>24</sup> The Company has communicated on its website the criteria whereby members of the BoD can be classified as Independent Directors. They are: Federico Ferro Luzzi, Nicoletta Mincato, Giancarla Branda, Franca Brusco.

<sup>25</sup> The following Independent and Non-Executive Directors are the members of the Appointments and Remuneration Committee: Federico Ferro-Luzzi (President), Franca Brusco, Giancarla Branda. Source: Italian Stock Exchange.

<sup>26</sup> On 26 September 2019, the BoD changed the name of the Control and Risks Committee to "Control, Risks and Sustainability Committee" and approved amendments to its regulations. The Committee's sphere of competences was extended to include ESG issues, and its functions to include the gathering of information, as well as providing proposals and advice. The following Non-Executive and Independent Directors are the members of the Control, Risks and Sustainability Committee: Franca Brusco (President), Federico Ferro-Luzzi, Nicoletta Mincato. Source: Italian Stock Exchange.

<sup>27</sup> "CEO Maria Laura Garofalo is the wife of Alessandro Maria Rinaldi (President of GHC) and the mother of Alessandra Rinaldi Garofalo. Claudia Garofalo is the niece of Maria Laura Garofalo". Source: Final Report Standard Ethics 2020.

<sup>28</sup> For further information, see Chapter 6.2, "Sustainability Governance" in the Non-Financial Statement. Source: NFS 2020, page 25.

<sup>29</sup> Source: Report on Corporate Governance and Ownership Structure 2020, pages 70 and ff.

<sup>30</sup> "(...) In order to ensure adequate skills and professional competence among members of the management entities, the Company has chosen to pursue the following diversity-enhancing goals: 1. Gender equality; 2. Diversity in age and seniority within the company; 3. Diversity of professional and managerial competences; 4. Geographical origin and international experience; 5. Personal characteristics." Source: Policy on ensuring diversity within the management and control bodies, pages 3 and ff.

Additional requirements are the provisions that GHC has adopted on conflicts of interest in its Code of Ethics<sup>31</sup> and in its Organisational Model 231, as well as the provisions enacted by the **Control, Risks and Sustainability Committee**, a committee made up entirely of Independent Directors and supported by the Board of Statutory Auditors, and by the **Internal Audit** office which relies on the Group's Enterprise Risk Management (ERM).<sup>32</sup>

No specific procedures (beyond that which is required by law) appear to have been adopted to establish selection criteria for the members of the BoD.

At present, there are no Shareholders' Agreements involving Directors or top management.

## 9. DISCLOSURE, TRANSPARENCY AND STAKEHOLDERS

GHC has adopted a practice of **integrated non-financial reporting** following the **Standards** of the **Global Reporting Initiative (GRI)**, with a "GRI-Referenced" approach.<sup>33</sup> Its reporting is adequate and complies with the best practices in the sector. Just as is the case for its traditional reporting, the corporate website provides clear information on ESG issues as well, backed up by plentiful and detailed documentation.<sup>34</sup>

The "**comply or explain**" principle is implemented, although it is not specifically mentioned in the Code of Ethics.<sup>35</sup>

The Company's Stakeholder Engagement activities are properly reported, although no detailed analysis of the relationship between members of the Board and stakeholders is provided.<sup>36</sup> The issues relating to the risk of conflicts of interest are addressed in the Code of Ethics.<sup>37</sup>

In compliance with Italian law, the Internal Dealing procedure has been adopted and is correctly disclosed.<sup>38</sup>

## 10. PARTICIPATION AND VOTE IN GENERAL MEETINGS

There are no additional provisions, beyond that which is required by the Company By-laws,<sup>39</sup> to facilitate participation in General Meetings.

<sup>31</sup> As was already mentioned in the previous SE Report, Article 1.7 of the Code of Ethics (which is currently being revised) states: "GHC takes the utmost care to avoid all conflicts of interest." Source: Code of Ethics, page 7. According to information provided by a corporate source: "There is no specific department tasked with controlling conflicts of interest that are not of an immediate economic nature. Such situations, once identified, can be examined by the department that first becomes aware of them, also requesting the assistance of the Legal and Corporate Affairs department of the Holding (GHC S.p.A.)." Source: corporate source, quoted in Standard Ethics Final Report 2020.

<sup>32</sup> "For the integrated management of sustainability topics, the CRSC is in addition requested to support, with appropriate preliminary and proposal activities, the assessment and decisions of the Board of Directors concerning the risks management system, in addition to overseeing the correct and effective application of the Group's Enterprise Risk Management ("ERM") method." Source: NFS 2020, page 25. And further: "The GHC Group, as part of its Internal Control and Risk Management System (described in the following sections) has defined the basis for the adoption of a single, integrated Risk Management system within the Company's organisational and governance structure for the periodic analysis, assessment, management and monitoring of risks within the organisation. Specifically, during 2020 GHC set up an Enterprise Risk Management ("ERM") model that seeks to integrate risk management with the business model and support strategic planning." NFS 2020, page 34.

<sup>33</sup> The Non-Financial Statement is drawn up according to the standards of the Global Reporting Initiative (GRI), adopting a "GRI-Referenced" approach. The Company has adopted the most recent version (2018) of specific standard GRI 403 (Health and Safety in the workplace). It is drafted according to a specific procedure, PA DACFO 11 – Procedure for the Non-Financial Statement. Certified by Deloitte & Touche S.p.A. in March 2021.

<sup>34</sup> The Company's website ([www.garofalohealthcare.com](http://www.garofalohealthcare.com)) appears to be very well designed; it allows one to access a variety of sections and sub-sections, where any information one may be looking for can be found quickly and easily.

<sup>35</sup> The disclosure is implemented in compliance with the Corporate Governance Code for Listed Companies and the documentation is contained in the Non-Financial Statement.

<sup>36</sup> For greater detail, see Chapter 6.5 "Stakeholder Engagement and Materiality Matrix". Source: NFS 2020, page 25.

<sup>37</sup> Source: Code of Ethics, page 8.

<sup>38</sup> The Company has adopted a specific procedure ("Internal Dealing Procedure") which regulates the disclosure of all transactions ("Significant Transactions – MAR, Market Abuse Regulation") carried out by Significant Shareholders, on the Stock Exchange or outside it, involving shares or corporate debt instruments, related financial instruments, as defined and described pursuant to Article 3, para 2, item b), of EU Regulation no. 596/2014. Source: Internal Dealing Procedure, page 6.

<sup>39</sup> Articles 14-24 of the Company's By-laws.

## 11. EMPLOYMENT AND HUMAN RESOURCES SELECTION

As of 31 December 2020 the Group had **1,432** employees, as compared to **1,350** employees in 2019.

The majority of staff members are employed with a permanent contract; and 78% of employees are women.<sup>40</sup>

As already pointed out in the previous SE Report, the Company is planning on introducing corporate welfare programmes.<sup>41</sup>

In 2021 GHC introduced a **long-term incentive plan** connected to its sustainability rating (Standard Ethics) and its environmental sustainability performance.<sup>42</sup>

## 12. HEALTH, SAFETY AT WORK AND SOCIAL DIALOGUE

As is the case with all Italian enterprises, GHC is a party to the National Collective Labour Agreement which envisages a bilateral body on "Health, Safety and the Environment." In compliance with the national provision, GHC has promoted the establishment of Operational Units of Prevention and Protection Service Officers (RSPP) in the workplace. In Italy, these issues are addressed in great detail in the legislation, and this does not leave much space for additional voluntary regulations. Furthermore, all the Groups' facilities are authorised by the National Health Service.<sup>43</sup>

Due to the Covid-19 healthcare emergency, the Group's facilities have implemented additional health and sanitisation provisions.<sup>44</sup>

## 13. ADAPTING TO CHANGE

This issue, which is central in EU and OECD guidelines, has not been addressed by the Company. There do not appear to be any specific initiatives on this question.<sup>45</sup>

## 14. ENVIRONMENT

**Environmental protection** is one of the basic principles established by the Code of Ethics<sup>46</sup> and is addressed in detail in the Non-Financial Statement.<sup>47</sup>

<sup>40</sup> "In addition, the GHC Group also employs freelance professionals (such as doctors, consultants, psychologists, health technicians), which at December 31, 2020 numbered 1,648, up from 1,583 in 2019. In total, the GHC Group therefore employs 3,080 people, up 147 from 2,933 in 2019." Source: NFS 2020, pages 52-53.

<sup>41</sup> Source: corporate source.

<sup>42</sup> See Chapter 1, "Content and goals of remuneration policy 2020 and relationship with Group strategy and sustainability programmes." In practice, "the MBO system provides incentives to pursue concrete goals consistent with the achievement of the Group's strategic objectives relating to health and safety, to the full realization of the potential of human resources, to the achievement of environmental sustainability, rewarding all activities aimed at improving the Group's Standard Ethics rating and the concrete implementation of energy efficiency and environmental sustainability goals." Source: Report on Remuneration Policy 2021 and on remunerations paid out in 2020, page 15. The KPIs are: "60% Operating EBITDA adjusted average margin 2021-2023 + 25% Relative TSR vs FTSE All Share Index + 10% Standard Ethics rating + 5% energy efficiency analysis." Source: Report on Remuneration Policy 2021 and on remunerations paid out in 2020, page 17.

<sup>43</sup> For greater detail, see NFS 2020.

<sup>44</sup> During the first semester of 2020, guidelines on environmental protection and safety consisted of operational protocols drawn up to address the health emergency, which were shared with all the Group's facilities on 25 February, 9 March and 25 March. In compliance with ESMA and CONSOB Guidelines, the Company has maintained information relating to Covid-19 in its reporting. Source: corporate source.

<sup>45</sup> The Company has introduced implementation policies on corporate activities promoting stakeholder dialogue. Note that entrance barriers to the market in Italy and all the legislation in this field are very strict: this reduces the impact that activities promoted by individual companies may exert.

<sup>46</sup> Article 1.9 of the Code of Ethics states: "GHC acknowledges the importance of respecting the environment and compels its Recipients to consider the environmental effects of their decisions so as to compensate for any negative environmental impact. GHC plans its activities by seeking the best possible balance between economic and environmental sustainability." Source: Code of Ethics, page 7.

<sup>47</sup> Environmental impact and environmental responsibility management throughout the supply chain are issues addressed in GHC's Materiality Matrix, as well as in its Enterprise Risk Management, which envisages risk monitoring and mitigation actions. Source: NFS 2020, pages 35, 69 and ff.

The calculation of CO<sub>2</sub> emissions has been correctly implemented and reported.<sup>48</sup>

GHC intends to adopt an increasing number of initiatives promoting greater **energy efficiency**, including through the use of renewable sources of energy.<sup>49</sup>

Several of the Group's facilities have obtained ISO 9001 Quality management certification.<sup>50</sup>

## 15. CONSUMERS AND QUALITY

The fact that the Group's facilities are accredited with the National Health Service ensures their quality and that the services they provide are monitored.<sup>51</sup>

The Quality management service implemented by GHC envisages the use of questionnaires monitoring the degree of satisfaction reported by both patients and healthcare workers.<sup>52</sup>

All well-grounded complaints relating to breaches of privacy and/or loss of customers' personal data are reported.

The Group's facilities are all described in detail in a Charter outlining the services offered; this is available online, illustrating the facility itself, its activities and details of services provided.

## 16. SCIENCE AND TECHNOLOGY

GHC has established a Scientific Committee made up of leading experts and scientists who act as advisors to the Board and the Company as a whole.<sup>53</sup>

The Company has adopted several initiatives in this field, in collaboration with Italian and foreign Research Centres and Universities.<sup>54</sup>

Staff training programmes are constantly being provided and are organised on a continuous basis.<sup>55</sup>

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<sup>48</sup> "The direct and indirect CO<sub>2</sub> emissions associated with the GHC Group's main consumption can be divided into two categories: 1. direct (Scope 1) emissions: greenhouse gas emissions from direct fuel consumption by the company (e.g. natural gas, diesel and petrol); 2. indirect (Scope 2) emissions: greenhouse gas emissions from the consumption of electricity, heat and steam received and used by the company." Source: NFS 2020, page 71.

<sup>49</sup> Scope 1 emissions decreased in 2020 as compared to 2019.

<sup>50</sup> They are: Villa Berica, CMSR, Sanimedica, Villa Garda, Centro Medico San Biagio, Centro Medico Università Castrense, Poliambulatorio Dalla Rosa Prati, Ospedali Privati Riuniti, Gruppo Fides (RoeMar), Gruppo Fides (Centro di Riabilitazione), Gruppo Fides (Fides Servizi). Source: NFS 2020, page 75.

<sup>51</sup> In 2020 GHC announced that an investment plan amounting to about EUR 18 million had been approved: the sum will be allocated for the purchase of latest generation machines and technologies, especially in the field of diagnostics, privileging those instruments with a reduced environmental impact. Source: corporate source.

<sup>52</sup> All the Group's facilities (except for Villa Von Siebenthal, because of the special nature of its activities) ask their patients/clients to fill in questionnaires, on a voluntary basis, to determine their level of satisfaction. Some facilities (such as Villa Berica) use these questionnaires for their internal analysis and monitoring activities. Source: corporate source.

<sup>53</sup> "(...) in 2018, GHC's Board of Directors set up a Scientific Committee, on which leading scientific experts with consultative functions sit, which has the objective, among others, to make available to the clinics and the researchers of the GHC Group a "forum" for the sharing and synergy of their scientific activities; to act as a promoter of common guidelines for the planning and presentation of research projects to domestic and international funding agencies for medical research and health services." Source: NFS 2020, page 41.

<sup>54</sup> The GHC Group's facilities are very active in research programmes in collaboration with Italian and foreign Research Centres and Universities, for the most part involving highly advanced specialties such as heart surgery, vascular surgery, orthopaedics traumatology, spinal surgery, reconstructive surgery of the upper limbs, urology, internal medicine, diabetology and the diabetic foot, as well as the treatment of psychiatric disorders and eating disorders. Source: NFS 2020, page 53. Through its subsidiaries, the Company participates in collaboration projects with national and international Universities, and has published numerous scientific papers and treatises, obtaining prestigious acknowledgements for its work. Source: Information Prospectus.

<sup>55</sup> As far as IT innovations in healthcare are concerned, several of the Group's facilities have already implemented the Electronic Medical Record, while others launched the process to introduce it in 2020. Source: corporate source.

17. LOCAL COMMUNITIES	There are no significant initiatives in this field. <sup>56</sup>
18. BUSINESS PARTNERS	<p>The Code of Ethics applies to the Company's <b>suppliers</b> as well. GHC is currently examining the possibility of adopting a specific protocol on this subject.<sup>57</sup></p> <p>In the NFS the Company describes all the procedures that must be implemented in procurement procedures and in supplier selection.<sup>58</sup></p> <p>The time GHC takes to pay its suppliers is reported and accounted for.<sup>59</sup></p>
19. HUMAN RIGHTS	<p>The revised Code of Ethics, currently being drafted, will be based on the principles underpinning the international Guidelines approved by the UN, the OECD and the European Union.<sup>60</sup></p> <p>The issue of Human Rights is addressed in the NFS.<sup>61</sup></p>
20. EUROPEAN AND INTERNATIONAL STRATEGIES	<p>GHC's Materiality Index references the UN's Sustainable Development Goals.<sup>62</sup></p> <p>In October 2020, implementing a commitment undertaken in NFS 2019, the BoD approved its ESG Strategic Roadmap and adopted an agenda of Sustainability Objectives to be pursued over the period 2021-2024.<sup>63</sup></p>
21. CONCLUSIONS (SUMMARY)	<p>Garofalo Health Care S.p.A. has been active since 2000 in the field of private accredited healthcare in Italy. Listed since 2018, in 2021 it was included as a component of Euronext Star.</p> <p>GHC launched a significant process of geographical and sectoral diversification throughout Italy, relying on a stable controlling ownership structure. The Company's management is committed to a strategy of innovation. GHC's implementation of its ESG (Environmental, Social, Governance) policies is a product of this strategy and has given rise to a good system of non-financial reporting, a sustainability governance that also includes a <i>Risk Management</i> project on non-financial issues, a number of ESG policies and (starting in 2021) a long-term incentives plan linked to sustainability rating and to its energy efficiency and environmental sustainability performance.</p> <p>Overall, GHC's strategies are aligned with the voluntary Guidelines issued by the UN, the OECD and the EU.</p> <p>The long-term outlook is positive.</p>

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<sup>56</sup> Article 40 of the Company's By-laws states that the Company, if instructed to do so by the Board of Directors, may deduct from the annual profits an amount not greater than 1% of the net profits and allocate it to a fund which the Board of Directors may dispose of, *with full autonomy*, for scientific or charitable purposes.

<sup>57</sup> Source: corporate source.

<sup>58</sup> The supplier selection process evaluates the technical and qualitative characteristics of goods and/or services being purchased as well as the observance of delivery deadlines and the payment terms. The supplier selection process will also take into consideration – where applicable – the following elements: that the supplier is a leader in the sector for that specific type of product; that it produces a catalogue including the products in question; that the price it offers is competitive; that its delivery times are acceptable. Source: NFS 2020, pages 74 and ff.

<sup>59</sup> Days Payable Outstanding (DPO), the average time taken to pay suppliers, is 101 days. DPO is defined as the ratio between Accounts payable as reported in the Group's yearly Consolidated Financial Statement and the sum of all Purchases of goods and materials, of services and the enjoyment of third parties' assets, and other purchases, as shown in the Group's yearly Consolidated Financial Statement, multiplied by the number of working days in that year. Source: Corporate Management Report 2020, page 21.

<sup>60</sup> Source: corporate source.

<sup>61</sup> On several occasions, including with reference to the Health and safety and protection of patients' rights. Source: NFS 2020, page 56.

<sup>62</sup> See Chapter 6.6, "Materiality Matrix and Sustainable Development Goals (SDGs)". Source: NFS 2020, page 32.

<sup>63</sup> In October 2020, implementing a commitment undertaken in NFS 2019, the BoD approved its ESG Strategic Roadmap based on three main guidelines: development and extension of Stakeholder Engagement activity; development and analysis of GHC "material topics" and their integration into the ERM system; alignment with the market's best practices. Source: NFS 2020, page 37.

## SOURCES

(Where there are no dates, the most recent versions prevail)

The documents that have been consulted were published by the Client before the delivery of the guidelines.

The main sources are: Internal Code of Conduct, Financial Statements, ESG Reporting; Report on Corporate Governance and Company Ownership; Articles of Association; Bylaw Italian Legislative Decree 231/2001; Internal Regulations; Minutes of the Meetings of the Board of Directors with amendments to the Articles of Association; Regulations of the Shareholders' Meetings; Minutes of Shareholders' Meetings, Notices of Meetings and related explanatory reports; Various procedures including "related party transactions" and "Internal Dealing"; Documents on remuneration, qualitative and quantitative composition of top management bodies and sustainability strategies (at Group level too). Data and information given during meetings with internal functions were also used.

Other sources

Moreover, documents supplied by national and international regulatory bodies, the national stock exchange and independent sites.

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