GHC
GAROFALO HEALTH CARE

GAROFALO HEALTH CARE GROUP

Consolidated Financial Statements

at December 31, 2017, 2016 and 2015

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Registered office of the Parent Company

Garofalo Health Care S.p.A.

Via Giovanni Nicotera, 7

Roma

Legal information about the Parent Company

Capitale sociale deliberato 300.000

Capitale sociale sottoscritto e versato 300.000

Registro delle imprese di Roma – R.E.A. n 947074

Partita IVA 06103021009

Sito istituzionale: http://www.garofalohealthcare.com

Corporate boards

BOARD OF DIRECTORS

Maria Laura Garofalo – Chairman

Umberto Suriani – Director

Genchi Stefania – Director

BOARD OF STATUTORY AUDITORS

Piergiuseppe Bagnera - Chairman

Giorgio Cetroni - Acting Statutory Auditor

Sandro Lucidi - Acting Statutory Auditor

Antonio Giordani - Substitute Statutory Auditor

Massimo Sorbara - Substitute Statutory Auditor

INDEPENDENT AUDITORS

EY S.p.A.

GAROFALO HEALTH CARE GROUP
CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2017, 2016 AND 2015

Consolidated Statement of Financial Position at December 31, 2017, 2016 and 2015

		At December 31,		
		2017	**2016**	**2015**
		In Euro thousands		
Goodwill	Note 3	38,815	21,123	21,123
Intangible assets	Note 4	14,276	1,235	967
Property, plant and equipment	Note 5	89,950	81,334	81,763
Investment properties	Note 6	1,063	927	961
Investment in associates and joint ventures	Note 7	788	43	42
Other non-current financial assets:	Note 8	56	42	43
Other non-current assets	Note 9	1,084	1,160	1,233
Deferred tax assets	Note 10	3,326	3,013	3,419
TOTAL NON-CURRENT ASSETS		**149,358**	**108,877**	**109,551**
Inventories	Note 11	2,352	2,728	2,897
Trade receivables	Note 12	38,399	36,123	37,474
Tax receivables	Note 13	2,018	2,661	2,022
Other receivables and current assets	Note 14	1,506	1,253	1,022
Cash and cash equivalents	Note 15	22,635	19,192	16,023
TOTAL CURRENT ASSETS		**66,910**	**61,957**	**59,438**
TOTAL ASSETS		**216,268**	**170,834**	**168,989**

		At December 31,		
		2017	**2016**	**2015**
		In Euro thousands		
Share capital	Note 16	300	300	300
Legal reserve	Note 16	40	20	20
Other reserves	Note 16	82,685	70,938	66,948
Net income attributable to owners of the parent	Note 16	12,241	5,491	6,610
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**95,266**	**76,749**	**73,878**
Capital and reserves attributable to non-controlling interests	Note 16	6,544	2,234	2,138
Net income attributable to non-controlling interests	Note 16	68	142	121
TOTAL EQUITY		**101,878**	**79,125**	**76,137**
Employee benefits liabilities	Note 17	9,119	8,107	8,362
Provisions	Note 18	8,397	7,157	6,470
Non-current financial liabilities	Note 19	34,502	25,558	30,003
Other non-current liabilities	Note 20	-	-	412
Deferred tax liabilities	Note 10	7,642	3,203	2,654
Non-current liabilities for derivative	Note 21	11	20	23
TOTAL NON-CURRENT LIABILITIES		**59,671**	**44,045**	**47,924**
Trade payables	Note 22	19,296	16,208	18,364
Current financial liabilities	Note 23	20,496	18,448	15,767
Tax payables	Note 24	3,908	2,448	2,305
Other current liabilities	Note 25	11,019	10,560	8,492
TOTAL CURRENT LIABILITIES		**54,719**	**47,664**	**44,928**
TOTAL LIABILITIES		**114,390**	**91,709**	**92,852**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**216,268**	**170,834**	**168,989**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statement of Income for the years ended December 31, 2017, 2016 and 2015

		For the years ended December 31,		
		2017	**2016**	**2015**
		In Euro thousands		
Revenues from services	Note 26	135,373	123,489	124,599
Other revenues	Note 27	1,293	597	2,418
TOTAL REVENUEs		**136,666**	**124,086**	**127,017**
Cost for raw materials and consumables	Note 28	19,459	20,196	19,583
Costs for services	Note 29	51,058	46,611	45,873
Personnel costs	Note 30	34,651	32,860	34,600
Other operating costs	Note 31	6,616	7,516	7,427
Depreciation, amortization and write-downs	Note 32	5,920	5,700	5,599
Allocation to provisions	Note 33	1,924	1,406	2,041
TOTAL OPERATING COSTS		**119,628**	**114,289**	**115,123**
OPERATING RESULT		**17,038**	**9,797**	**11,894**
Financial income	Note 34	875	75	287
Financial expenses	Note 35	(930)	(881)	(1,136)
Results of investments in accordance with the equity method	Note 36	32	-	-
TOTAL FINANCIAL INCOME AND EXPENSES		**(23)**	**(806)**	**(849)**
INCOME BEFORE INCOME TAXES		**17,015**	**8,991**	**11,045**
Income taxes	Note 37	4,706	3,358	4,314
NET INCOME FOR THE YEAR	Note 38	**12,309**	**5,633**	**6,731**
Attributable to:				
Owners of the parent	Note 38	12,241	5,491	6,610
Non-controlling interests	Note 38	68	142	121
Basic and diluted earnings per share (*in Euro units*)	Note 39	**41.03**	**18.78**	**22.44**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015

	For the years ended December 31,		
	2017	**2016**	**2015**
	In Euro thousands		
Net income for the year	**12,309**	**5,633**	**6,731**
Other items of the Comprehensive Income Statement that will not be subsequently reclassified in the profit/loss of the year			
Actuarial gains (losses) on defined-benefit plans	50	(850)	1,594
Tax effect	(12)	204	(382)
Total other items of the Comprehensive Income Statement that will not be subsequently reclassified in the profit/loss of the year net of taxes	**38**	**(646)**	**1,212**
Profits and (losses) recognized in equity	**38**	**(646)**	**1,212**
Total comprehensive income of the year	**12,347**	**4,987**	**7,943**
Attributable to:			
Owners of the parent	12,266	4,870	7,782
Non-controlling interests	81	117	161

The accompanying notes are an integral part of the Consolidated Financial Statements.

Statement of Changes in Consolidated Equity for the years ended December 31, 2017, 2016 and 2015

	Share capital	Legal reserve	Other reserves	Group result for the year	Group equity	Minorities' capital and reserves	Minorities result of the year	Consolidated shareholders' equity
	In Euro thousands							
Balances at January 1, 2015	**300**	**20**	**74,043**	**-**	**74,363**	**2,101**	**-**	**76,464**
Total comprehensive income	-	-	1,172	6,610	**7,782**	40	121	**7,943**
Dividends	-	-	(8,876)	-	**(8,876)**	(3)	-	**(8,879)**
Capital increase (Note 16)........	-	-	600	-	**600**	-	-	**600**
Other changes....	-	-	9	-	**9**	-	-	**9**
Balances at December 31, 2015	**300**	**20**	**66,948**	**6,610**	**73,878**	**2,138**	**121**	**76,137**
Allocation of net income	-	-	6,610	(6,610)	**-**	121	(121)	**-**
Total comprehensive income	-	-	(621)	5,491	**4,871**	(25)	142	**4,988**
Dividends	-	-	(2,000)	-	**(2,000)**	-	-	**(2,000)**
Other changes....			1					
Balances at December 31, 2016	**300**	**20**	**70,938**	**5,491**	**76,749**	**2,234**	**142**	**79,125**
Allocation of net income	-	20	5,471	(5,491)	**-**	142	(142)	**-**
Total comprehensive income	-	-	25	12,241	**12,266**	13	68	**12,347**
Capital increase (Note 16)........	-	-	6,245	-	**6,245**	1,249	-	**7,494**
Change in consolidation...	-	-	-	-	**-**	2,908	-	**2,908**
Other changes....	-	-	6	-	**6**	(2)	-	**4**
Balances at December 31, 2017	**300**	**40**	**82,685**	**12,241**	**95,266**	**6,544**	**68**	**101,878**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the years ended December 31, 2017, 2016 and 2015

	For the years ended December 31,		
	2017	2016	2015
	In Euro thousands		
OPERATING ACTIVITIES			
NET INCOME FOR THE YEARS	**12,309**	**5,633**	**6,731**
Adjustments for:			
- Depreciation and amortization of tangible and intangible assets	5,714	5,409	5,462
- Accrual to employee benefits	1,995	1,099	2,817
- Accrual to provisions	1,924	1,406	2,041
- Accrual to provision for bad debts	206	291	137
- Change in other non-current assets and liabilities	75	73	71
- Change in deferred tax assets and liabilities	539	955	289
- Change in fair value of financial instruments	(9)	(3)	(49)
- Payments for employee benefits	(25)	(2,204)	(2,256)
- Payments for provisions	0	(719)	(1,355)
- Changes in operating assets and liabilities:			
(Increase) decrease in trade receivables and other receivables	4,473	1,060	1,361
(Increase) decrease in inventories	527	168	(125)
Increase (decrease) in trade payables and other payables	818	(2,155)	134
Other current assets and liabilities	(1,741)	1,341	170
CASH FLOW PROVIDED BY OPERATING ACTIVITIES (A)	**26,805**	**12,354**	**15,428**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments in tangible assets	(2,530)	(4,684)	(4,302)
Investments in intangible assets	(120)	(564)	(520)
Change in Financial assets	(504)	-	7,681
Acquisition of Nobili, net of cash acquired	(2,120)	-	-
Acquisition of Fi.d.es Group, net of cash acquired	(29,913)	-	-
CASH FLOW PROVIDED BY (USED IN) INVESTMENT ACTIVITIES (B)	**(35,187)**	**(5,248)**	**2,859**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from medium/long-term loans	13,000	1,350	750
Repayment of medium/long-term loans	(5,440)	(5,840)	(4,438)
Disbursement/(repayments) of short-term loans	(2,479)	953	(655)
Dividend distribution	(750)	(400)	(8,467)
Share capital increase and shareholder contributions	7,494	-	600
NET CASH FLOW PROVIDED BY (USED IN) FINANCING ACTIVITIES (C)	**11,825**	**(3,937)**	**(12,210)**
TOTAL CASH FLOW (D=A+B+C)	**3,443**	**3,169**	**6,077**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)	**19,192**	**16,023**	**9,946**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (F=D+E)	**22,635**	**19,192**	**16,023**
Additional information:			
Interest paid	786	710	940
Income taxes paid	1,946	2,604	3,245

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2017, 2016 AND 2015

Note 1 Accounting standards of reference and preparation criteria adopted in preparing the Consolidated Financial Statements at December 31, 2017, 2016 and 2015

1.1 Corporate Information

The publication of the Consolidated Financial Statements of Garofalo Health Care S.p.A. ("**GHC**", the "**Company**") and its subsidiaries (together with the company, the "**GHC Group**" or the "**Group**") for the years ended December 31, 2017, 2016 and 2015 was authorized by the Board of Directors on June 27, 2018.

GHC is a company incorporated under Italian law based in Rome. The Company, established on April 20, 2000, prior to 2016, was named Larama Emilia Romagna S.p.A..

At January 1, 2015, the Company controlled Hesperia Hospital Modena S.p.A.. Subsequently, during 2016 and 2017 the following entities, owned prior to those dates by subjects relating to the GHC controlling entities, had been transferred to the Group: i) in 2016: Casa di Cura Villa Berica S.p.A., CMSR Veneto Medica S.r.l., Rugani Hospital S.r.l., Sanimedica S.r.l. and Centro Medico Palladio S.r.l. in liquidation and, ii) in 2017: Casa di Cura Villa Garda S.p.A., Villa Von Siebenthal S.r.l. and L'Eremo di Miazzina S.p.A. (the "**Companies subject to Reorganization**").

Moreover, in 2017, GHC acquired from third parties control of Casa di Cura Prof. Nobili S.p.A., FI.D.ES. Medica S.r.l., Centro di Riabilitazione S.r.l., Genia Immobiliare S.r.l., Ro. E. Mar S.r.l., FI.D.ES. Servizi S.c.a.r.l. and Prora S.r.l. (the "**Companies subject to Acquisition**").

The consolidated financial statements of the GHC Group for the years ended December 31, 2017, 2016 and 2015 include, for all financial years presented, the financial data of the Company and Hesperia Hospital Modena S.p.A., as well as those of the Companies subject to Reorganization and, for the periods subsequent to their acquisition, those of the Companies subject to Acquisition.

As indicated in detail in the following note 1.5 "Consolidation principles and scope of consolidation", the consolidated financial statements consolidate the Companies subject to Reorganization for the periods prior to the date of their transfer to the Company following the Reorganization. This accounting was possible as the Companies subject to Reorganization were, for the periods prior to the date of their transfer to the Company, under the control of subjects relating to the GHC controlling entities, and, for "business combinations involving entities or businesses under common control", the financial data of these companies are presented in the consolidated financial statements for these periods in consolidated form and on the same basis applied from subjects relating to the GHC controlling entities prior to the reorganization.

In particular, the Company verified that subjects relating to the GHC controlling entities controlled the Companies subject to Reorganization before and after reorganization and that meets the definition of "business combination involving entities or businesses under common control" as defined by accounting standard IFRS 3, however excluded from the scope of application of the acquisition method required by the aforementioned IFRS 3.

In relation to the provisions of paragraph 28 of IFRS 1, it should be noted that the Company had not previously prepared consolidated financial statements, also in accordance with Italian accounting standards, availing itself of the option provided for by art. 27 of Legislative Decree 127/1991 to delegate the preparation of the same to the ultimate parent, Raffaele Garofalo & C. S.A.p.A..

1.2 General principles

The consolidated financial statements of the GHC Group for the years ended December 31, 2017, 2016 and 2015 (the "**Consolidated Financial Statements**") have been prepared in compliance with the IAS/IFRS international accounting standards issued by the IASB - International Accounting Standards Board - approved by the European Union ("**IFRS**") 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, applying in advance the international accounting standard IFRS 15 - "Revenue from contracts with customers" and IFRS 9 - "Financial Instruments", to consistently present the Consolidated Financial Statements with the consolidated half-year report for the six months ended June 30, 2018 (the "**Half-Year Report**").

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

The Consolidated Financial Statements have been prepared solely for the purpose of inclusion in the Prospectus relating to the planned admission to trading on the Electronic Stock Exchange (Mercato Telematico Azionario - MTA) organized and managed by Borsa Italiana S.p.A. of the Company's shares.

The Consolidated Financial Statements are presented in Euro and all amounts are rounded to thousands of Euro, unless otherwise indicated.

The Consolidated Financial Statements 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 are presented in Euro and all amounts are rounded to thousands of Euro, unless otherwise indicated.

These 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.

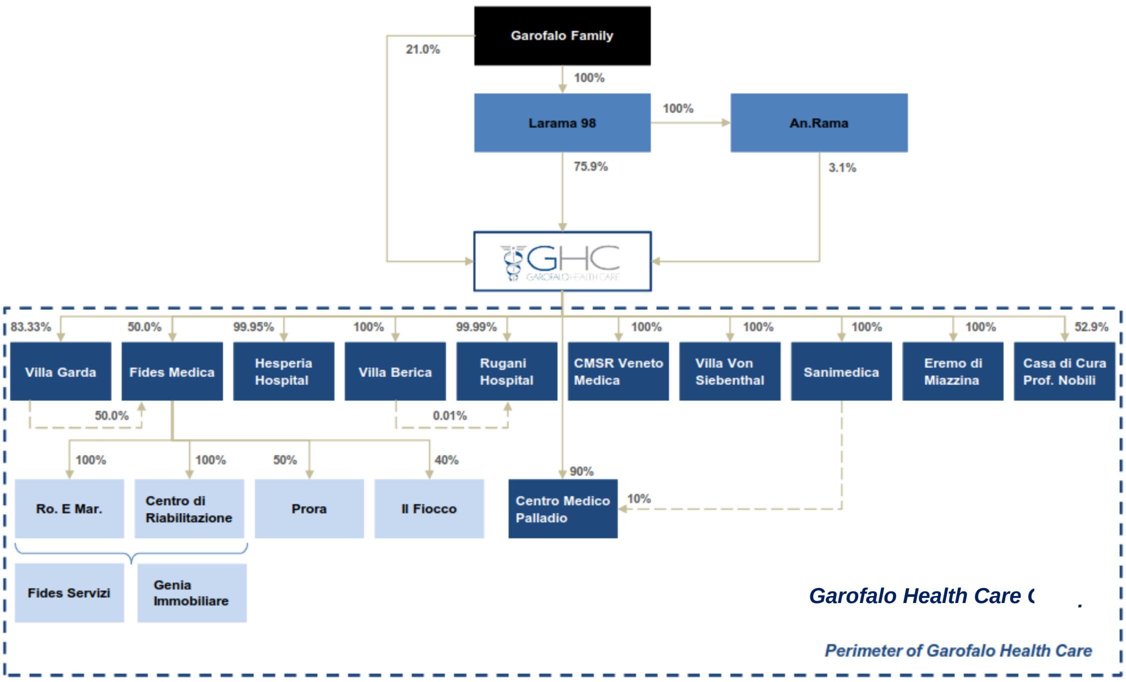
1.3 Financial Statements

The Consolidated Financial Statements of the Company consist of the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in 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, 2017 is provided below.



1.5 Consolidation principles and scope of consolidation

The Consolidated Financial Statements include the financial statements of Garofalo Health Care S.p.A. and its subsidiaries at December 31, 2017. With reference to the years ended December 31, 2016 and 2015, the Consolidated Financial Statements consolidate the companies under common control of the subjects relating to the GHC controlling entities for the periods prior to the date of transfer to the Company.

The details of the consolidated companies are shown below.

			Percentage of shareholding at December 31,		
Company	**Registered Office**	**Structure**	**2017**	**2016**	**2015**
Garofalo Health Care S.p.A.	Rome	Holding	Parent	Parent	Parent
Hesperia Hospital Modena S.p.A.	Modena	Accredited healthcare facility	99,95%	99,95%	99,95%
Casa di Cura Villa Berica S.p.A.	Vicenza	Accredited healthcare facility	100%	100%	(1)
Rugani Hospital S.r.l.	Siena	Accredited healthcare facility	100%	100%	(1)
CMSR Veneto Medica S.r.l.	Vicenza	Accredited healthcare facility	100%	100%	(1)
Sanimedica S.r.l.	Vicenza	Accredited healthcare facility	100%	100%	(1)
Centro Medico Palladio S.r.l. in liquidation..........	Vicenza	Accredited healthcare facility	100%	100%	(1)
L'Eremo di Miazzina S.p.A.	Verbania	Accredited healthcare facility	100%	(1)	(1)
Casa di Cura Villa Garda S.p.A.	Garda	Accredited healthcare facility	83,3%	(1)	(1)

Villa Von Siebenthal S.r.l.	Genzano Romano	Accredited healthcare facility	100%	(1)	(1)
Casa di Cura Prof. Nobili S.p.A.	Castiglione di Pepoli (Bo)	Accredited healthcare facility	52.9%		
Fides Medica S.r.l.	Piombino	Accredited healthcare facility	100%		
Centro di Riabilitazione S.r.l.	Genoa	Accredited healthcare facility	100%		
Genia Immobiliare S.r.l.	Genoa	Real estate company of the FIdes Group	100%		
Ro. E. Mar S.r.l.	Piombino	Accredited healthcare facility	100%		
Fides Servizi S.c.a.r.l.	Genoa	Company that provides services to the Fides Medica Group	100%		
Prora S.r.l.	Genoa	Accredited healthcare facility	100%		

(1) Companeis controlled at that date by owners of GHC.

The changes in the scope of consolidation during the three-year period relate to the acquisitions in 2017 of Casa di Cura Prof. Nobili S.p.A., Fides Medica S.r.l., Centro di Riabilitazione S.r.l., Genia Immobiliare S.r.l., Ro. E. Mar S.r.l, Fides Servizi S.c.a.r.l. and Prora S.r.l.

Ultimate parent

The ultimate parent of Garofalo Health Care S.p.A. is Raffaele Garofalo & C. S.A.p.A. and domiciled in Rome.

Associated companies

The Group holds a 40% shareholding in Il Fiocco S.c.a.r.l., following the acquisition of the Fides Group in 2017.

1.6 Summary of the main accounting standards

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is determined as the sum of the amount transferred, measured at fair value at the acquisition date and the amount of the minority shareholding in the acquiree. For each business combination, the Group decides whether to measure any minority interest in the acquiree at fair value or in proportion to the minority share of the acquiree's net identifiable assets. Acquisition costs are expensed in the year and classified as administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets received and the liabilities assumed in accordance with the terms of the contract and the economic and other conditions in effect on the acquisition date. This includes the verification to determine whether an embedded derivative must be separated from the primary contract.

Any contingent amount is recognized at the 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 amount paid, the Group again verifies whether it correctly identified all the assets acquired and all the liabilities assumed and revises the procedures used to determine the amounts to be recognized at the acquisition date. If the new valuation still shows a fair value of the net assets acquired higher than the amount, the difference (profit) is recognized in the income statement.

After its initial recognition, goodwill is valued at cost net of accumulated impairment. 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 with the operation disposed of is determined on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

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 amortization of intangible assets with definite useful life is recognized in the annual profit/(loss) statement in the cost category that reflects the function of the intangible asset.

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 equipment

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 that do not add value to or extend the residual lives of assets are expensed as incurred; otherwise, they are capitalized.

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 the duration of contracts
Plants and machinery	10 years
Industrial and commercial equipment..	8 years
Furniture and fittings	10 years
Electronic machines	5 years
Vehicles and cars	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 property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recovered, following the rules described below.

An asset should be removed from the balance sheet upon disposal or when no future economic benefits are expected from its use. The gain or loss on disposal (calculated as the difference between proceeds and carrying value) is recognized in the income statement in the year the asset is derecognized.

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 lease contract is classified as a financial lease or an operating lease at the beginning of the lease. Lease contracts that transfer substantially all the risks and rewards of ownership of the leased asset to the Group are classified as financial leases.

Financial leases are capitalized on the lease start date at the fair value of the leased asset or, if lower, at the present value of the lease instalments. The lease payments are divided between principal and interest so as to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are recognized 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 lease contract that does not qualify as a financial lease. Operating lease payments are recognized as costs in the income statement on a straight-line basis over the duration of the contract.

e) Investments properties

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) Impairment of assets

On each reporting date, the Group assesses whether there is evidence of impairment of Intangible assets and Property, plant and equipment. In the event that these indicators emerge, an impairment test is carried out.

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. The future financial flows are estimated by referring to current conditions: the estimates therefore do not consider either the benefits deriving from future renovations for which the Company has not yet committed nor the future investments for improvement or optimization of the asset or unit.

If the book value of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses relating to continuing operations are recognized in expense categories consistent with the function of the impaired asset. 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 that case, the book value of the asset is increased to the recoverable amount; however, the increased book value must not exceed the book value that would have been determined (net of amortization or depreciation) had no impairment loss been recognized. 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 associated and other companies

An associate is a company over which the Group exercises significant influence. Significant influence is the power to participate in determining the financial and operating policies of the investee, without 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. At each reporting date, the Group assesses whether there is objective evidence of an impairment loss of the associated companies. 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 in its normal operating cycle;
- it is held mainly for the purpose of negotiating it;
- 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

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) Provisions for employee benefits

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 has no 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:

- Cost Amortized – “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 “general” approach is based on the classification of financial assets in three stages of risk, which correspond to different methods of measuring value adjustments according to the univocal concept of “Expected Loss”, or also “Expected credit losses” (hereinafter ECL). For the purposes of staging, the Company has adopted the following model:

For trade receivables (receivables for commissions), the simplified approach will therefore record the expected losses on all trade receivables based on their residual contractual duration.

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 analyze 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 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.

Expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. For contractual activities, trade receivables and other receivables, the Group applied the standard simplified approach and calculated the ECL based on the expected credit losses over the life of the loans. The Group has defined an allocation based on the Group's historical experience with respect to losses on receivables, adjusted by taking into account specific forecast factors for creditors and the economic context.

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 valued at the FVPL (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.

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 analyzing 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 analyzed 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.

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 main market, in the most advantageous market for the asset or liability.

The main market or the most advantageous market must be accessible to the Group.

The fair value of an asset or liability is valued by adopting the assumptions that market operators would use in the determination of price of the asset or liability, assuming that market operators act to best meet their own economic interest.

An assessment of the fair value of a non-financial asset does not consider the ability of a market operator to generate economic benefits by making utmost use of the asset or by selling it to another market operator that would make the utmost and best use of it.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which the fair value is measured or recorded in the financial statements are categorized according to the fair value hierarchy, as described below:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than the quoted prices included in Level 1, directly or indirectly observable for the asset or liability;
- Level 3 - valuation techniques for which the input data is not observable for the asset or liability.

The fair value is entirely classified in the same level of the fair value hierarchy in which the input of the lowest level of hierarchy used for the valuation is classified.

For assets and liabilities recognized in the financial statements at fair value on a recurring basis, the Group determines whether there have been transfers between the hierarchy levels re-evaluating the categorization (based on the lowest level input that is significant for the purposes of 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 analyzes 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 used in the evaluations.

For reporting purposes related to fair value, the Group determines classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as described above.

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 1st, 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 recognized upon acquisition of the good or service.

r) Financial income and expenses

Financial income and expenses are recognized on an accrual basis on the basis of interest accrued on the net value of the related financial assets and liabilities, using the effective interest rate.

s) Income taxes

Current 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 reporting

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 twenty-one 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: Piedmont (2), Veneto (4), Emilia Romagna (2), Liguria (11), Tuscany (1) and Lazio (1).

The *Hospital Sector* is in turn divided into three sub-sectors: (i) acute admissions, (ii) post-acute 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 costs

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. At December 31, 2017, the Company had not yet incurred these costs.

Listing costs will be accounted for in accordance with the provisions of IAS 32, which requires for them to be allocated to reduce any capital increase or to be recognized in the income statement upon successful listing.

1.6 Discretionary evaluations 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 valuation are related to the recognition and evaluation 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 these notes to the financial statements.

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 recognized with respect to deductible temporary differences between the values of assets and liabilities expressed in the financial statements compared to the corresponding tax value and tax losses that can be carried forward, to the extent that the existence of adequate future taxable profit is likely, with respect to which these losses may be used. 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.

1.7 Accounting standards issued but not yet in force

The accounting standards, amendments and interpretations not adopted in advance for the years ended December 31, 2017, 2016 and 2015 governed facts and cases that do not have significant effects on the Company's balance sheet, income statement, cash flow statement and the information contained in the 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:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments deal with the conflict between IFRS 10 and IAS 28 with reference to the loss of control of a subsidiary that is sold or transferred to an associate or a joint venture. The amendments clarify that the gain or loss resulting from the sale or the transfer of assets that constitute a business, as defined by IFRS 3, between an investor and its own associate or joint venture, must be fully recognized. Any profit or loss resulting from the sale or transfer of assets that do not constitute a business is, moreover, recognized only within the limits of the portion held by third-party investors in the associate or joint venture. The IASB has indefinitely deferred the date of application of these amendments; however, if an entity decides to apply them in advance it should do so prospectively. The Group will apply these amendments when they will enter into effect.

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based payments which deal with two main areas: the effects of a vesting condition on the measurement of a cash-settled payment transaction based on shares; the classification of a share-based payment transaction settled net of obligations for withholding tax; accounting if a change in the terms and conditions of a share-based payment transaction changes its classification from settled in cash to settled with equity instruments.

At the time of adoption, entities must apply the changes without restating the previous periods; however, retrospective application is permitted if chosen for all three changes and if certain criteria are met.

These amendments are in effect for years beginning on or after January 1st, 2018; early application is permitted.

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 - Leases, IFRIC 4 - Determining whether an agreement 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 leases and requires lessees to account for all lease contracts in the financial statements on the basis of a single model similar to that used to account for financial leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by lessees - lease contracts relating to “low value” activities (for example personal computers) and short-term lease contracts (for example contracts expiring within 12 months or less). At the start of the lease contract, lessees will recognize a liability for lease payments (i.e. lease liabilities) and an asset that represents the right to use the underlying asset for the duration of the contract (i.e. right to use the asset). Lessees will have to separately account for the interest expenses on the lease liability and amortization of the right to use the asset.

Lessees will also have to remeasure the lease liability upon the occurrence of certain events (for example: a change in the conditions of the lease contract, a change in future lease payments resulting from the change of an index or rate used to determine said payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as a correction of the right to use the asset.

The accounting required by IFRS 16 for lessors is substantially unchanged compared to today’s accounting in accordance with IAS 17. Lessors will continue to classify all leases using the same classification principle envisaged by IAS 17 and distinguishing between two types of leases: operating leases and financial leases.

IFRS 16 requires less extensive disclosures from lessees and lessors compared to IAS 17.

IFRS 16 shall be in effect for years beginning on or after January 1st, 2019. Early application is permitted, however not before the entity has adopted IFRS 15. A lessee may choose to apply the standard using a fully retrospective approach or a modified retrospective approach. The transitional provisions provided for by the standard allow certain facilitations.

In 2018, the Group will continue to define the potential effects of IFRS 16 on its Consolidated Financial Statements.

IFRS 17 - Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a new complete standard relating to insurance contracts that covers recognition and measurement, presentation and disclosure. When it enters into effect, IFRS 17 will replace IFRS 4 - Insurance Contracts which was issued in 2005. IFRS 17 applies to all types of insurance contracts (for example: life, non-life, direct insurance, re-insurance) regardless of the type of entity that issues them, as well as certain guarantees and financial instruments with characteristics of discretionary participation.

For this purpose, limited exceptions will apply. The general objective of IFRS 17 is to present an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the provisions of IFRS 4, which are largely based on the maintenance of previous accounting standards, IFRS 17 provides a complete model for insurance contracts that covers all relevant accounting aspects. The heart of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation characteristics (the VTA/variable fee approach);

- A simplified approach (the approach to the allocation of premiums) mainly for short-term contracts.

IFRS 17 will be in effect for years starting on January 1st, 2021 or later, and will require the presentation of the comparative balances. Early application is permitted, in which case the entity must also have adopted IFRS 9 and IFRS 15 on the date of first application of IFRS 17 or previously. This standard is not applicable to the Group.

Transfers of Investment Property - Amendments to IAS 40

The amendments clarify when an entity should transfer a property, including properties under construction or development as or not as Investments properties. The amendment establishes that a change in use occurs when the property satisfies, or ceases to satisfy, the definition of real estate and there is evidence of the change in use. A simple change in management intentions related to the use of the property does not provide evidence of change in use. Entities should apply changes prospectively to changes in use that occurred at the start date of the annual year in which the entity applies the changes for the first time, or later. An entity should re-evaluate the classification of the properties held on that date and, if applicable, reclassify them to reflect the conditions existing at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. The amendments shall be in effect for years beginning on or after January 1st, 2018. Early application is permitted, which must be notified. The Group will apply the amendments on the date of entry into effect. Moreover, since the accounting treatment followed by the Group is in line with the clarifications, the Group does not expect any effect on its consolidated financial statements.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

The short-term exemptions set forth in paragraphs E3-E7 of IFRS 1 were cancelled as they have fulfilled their purpose. The amendment has been in effect since January 1st, 2018. Said amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

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.

- If an entity that does not qualify as an investment entity has an investment in an associate or joint venture that is an investment entity, the entity can, when applying the equity method, decide to keep the measurement at fair value applied by that investment entity (whether an associate or a joint venture) in the measurement of its own investments. 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.

The amendments should be applied retrospectively from January 1st, 2018; early application is permitted. If an entity applies these amendments in advance, it must disclose the fact. Said amendments are not applicable to the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

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. The temporary exemption is applied for the first time to years starting on or after January 1st, 2018. An entity may choose the overlay approach when it first applies IFRS 9 and applies this approach retrospectively to the financial assets designated at the time of transition to IFRS 9. The entity restates the comparative information by reflecting the overlay approach if, and only if, the entity restates the comparative information when it applies IFRS 9. Said amendments are not applicable to the Group.

IFRIC Interpretation 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 must define the transaction date for each payment or advance on fees. Entities could apply the amendments on a fully retrospective basis. Alternatively, an entity could apply the interpretation prospectively to all activities, costs and revenues that fall within its scope that were initially recognized on the following dates or later:

- At the beginning of the year in which the entity applies the interpretation for the first time; or
- At the beginning of the previous year presented for comparative purposes in the financial statements for the year in which the entity first applies the interpretation.

The interpretation shall be in effect for years beginning on or after January 1st, 2018. Early application is permitted, which must be notified. Moreover, given that the current accounting standard of the Group is aligned with the interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties affecting the application of IAS 12 and does not apply to taxes or fees that do not fall within the scope of IAS 12, nor does it specifically include requirements relating to interests or penalties due to uncertain tax treatments.

The interpretation specifically deals with the following points:

- If an entity considers uncertain tax treatment separately;
- The assumptions of the entity on the examination of tax treatments by the tax authorities;
- How an entity determines the taxable profit (or the tax loss), the tax base, unused tax losses, unused tax credits and tax rates;
- How an entity treats changes in facts and circumstances.

An entity must define whether to consider each uncertain tax treatment separately or together with others (one or more) uncertain tax treatments. The approach that allows the best prediction of the uncertainty solution should be followed. The interpretation shall be in effect for years beginning on or after January 1st, 2019 but some transitional facilitations are available. The Group will apply the interpretation on the date of entry into effect. Since the Group operates in a complex multinational fiscal context, the application of the interpretation could have effects on the Consolidated Financial Statements and on the required disclosure. Furthermore, the Group may have to define processes and procedures to obtain the information necessary for the timely application of the interpretation.

Note 2 Acquisitions

2.1 Acquisition of the FI.D.ES Medica Group

On June 28, 2017, the Garofalo Health Care Group acquired 100% of the FI.D.ES. Medica Group (hereinafter also “Fides Medica Group”), a non-listed Group based in Genoa, specialized in long hospitalization with a focus on caring for the elderly with temporary physical impairments or those no longer self-sufficient, and in motor and psychiatric rehabilitation.

The Group consists of the following companies: FI.D.ES. Medica S.r.l. (parent company), Centro di Riabilitazione S.r.l., Genia Immobiliare S.r.l., Ro.E.Mar. S.r.l., FI.D.ES. Servizi S.c.a.r.l., Prora S.r.l. and Il Fiocco S.c.a.r.l..

The Garofalo Health Care Group has acquired the Fides Medica Group with the aim of continuing its policy of expansion and diversification, both territorial and sectoral; this acquisition has allowed entry into a new market such as that of the Liguria region, and has also allowed expanding the range of services covering all sectors of the health and social-care sector.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of the Fides Medica Group at the date of acquisition was:

	Fair value at **acquisition** ***In Euro thousands***
Assets	
Accreditation (intangible assets with indefinite useful life)	**8,257**
Intangible assets	**8**
Property, plant and equipment (Note 5)	**10,439**
Non-current assets (including investments)	**158**
Cash and cash equivalents	**6,301**
Trade receivables	***4,739***
Inventories	***13***
Current assets	***818***
	30,733
Liabilities	
Deferred tax liabilities	**2,393**
Trade payables	***1,353***
Current financial liabilities	***655***
Non-current financial liabilities	***2,927***
Employee benefits	***554***
Other current liabilities	***4,283***

Total net assets identifiable at fair value	**18,568**
Goodwill deriving from the acquisition	**17,646**
Consideration transferred	**36,214**
Net cash flow of the acquisition	**29,913**

The surplus deriving from the acquisition represents the surplus of purchase costs on the fair value of the portion attributable to the Group, identifiable for Euro 8,257 thousand in the net assets attributable to the Accreditation of the Fides Medica Group at the acquisition date.

Institutional accreditation is the process by which the authorized public and private structures acquire the qualification of a subject suitable for the provision of health and social health services on behalf of the Regional Health Service (SSR). The institutional accreditation is issued by the Region and is subject to the possession of the additional accreditation requirements defined by national and regional provisions, as well as the adoption of systems for continuous improvement of the quality of the services provided and monitoring of quality, the activity carried out and results achieved. This category of asset presents the conditions for being considered with indefinite useful life, and therefore this value is subject to an impairment test at least once a year and recorded at cost, net of losses deriving from impairment.

The fair value of the accreditation belongs to level 3 (refer to Note 40 Fair Value hierarchy) and is 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 4 years with a terminal value forecast, derive from the 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%.

Deferred tax liabilities include the tax effect relating to accreditation costs, as they are tax deductible.

The goodwill determined on a residual basis, equal to Euro 17,646 thousand, includes the value of the expected synergies deriving from the acquisition. Goodwill is not expected to be deductible for tax purposes. This value is tested for impairment at least once a year and recorded at cost, net of losses deriving from impairment.

From the date of acquisition, the Fides Group contributed Euro 7,613 thousand to Group revenues and Euro 1,120 thousand to the Group’s pre-tax profit. If the combination had been effective since the beginning of the year, revenues from operating activities would have been Euro 15,200 thousand and the profit from operating activities for the Group would have been Euro 1,370 thousand. This pro forma information is based on the balances of the financial statements prior to intercompany eliminations.

2.2 Acquisition of Casa di Cura Prof. Nobili S.p.A

On December 6th, 2017, the Group acquired 52.9% of Casa di Cura Prof. Nobili S.p.A., a non-listed company based in Castiglione dei Pepoli, Bologna, specialized in hospital activities with a focus on medicine and general surgery.

The Group acquired Casa di Cura Prof. Nobili S.p.A. continuing its policy of expansion and diversification both territorial and sectoral; in fact, this acquisition allowed expanding the offer in the Emilia Romagna region, where the Group is already present with Hesperia Hospital Modena S.p.A.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Casa di Cura Prof. Nobili S.p.A. at the date of acquisition was:

	Fair value at the acquisition
	In Euro thousands
Assets	
Accreditation	4,942
Intangible assets	13
Property, plant and equipment (Note 5)	1,143
Non-current assets (including investments)	97
Cash and cash equivalents	4,757
Trade receivables	2,216
Inventories	137
Current assets	153
	13,458
Liabilities	
Deferred tax liabilities	1,384
Trade payables	*916*
Other current liabilities	*738*
Provision for risks and charges	*327*
Employee benefits	*354*
	3,720
Total net assets identifiable at fair value	**9,739**
Minority interests measured as pro quota	2,908
Goodwill deriving from the acquisition	46
Consideration transferred	**6,877**
Net cash flow of the acquisition	**2,120**

The surplus deriving from the acquisition represents the surplus of purchase costs on the fair value of the portion attributable to the Group, identifiable for Euro 4,942 thousand in the net assets attributable to the Accreditation of Casa di Cura Prof. Nobili S.p.A. at the acquisition date, as further described also in Note 2.1.

The fair value of the accreditation belongs to level 3 and is 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 4 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 and take 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%.

Deferred tax liabilities include the tax effect relating to accreditation costs, as they are tax deductible.

The goodwill determined on a residual basis, equal to Euro 47 thousand, includes the value of the expected synergies deriving from the acquisition. Goodwill is not expected to be deductible for tax purposes. This value is tested for impairment at least once a year and recorded at cost, net of losses deriving from impairment.

From the date of acquisition, Casa di Cura Prof. Nobili S.p.A. contributed Euro 699 thousand to Group revenues and Euro 21 thousand to the pre-tax profit. If the combination had been effective since the beginning of the year, revenues from operating activities would have been Euro 9,045 thousand and the pre-tax net profit of operating activities would have been Euro 740 thousand.

This subsidiary, whose values at December 31, 2017 approximate those indicated above with reference to the acquisition date, is considered to be a subsidiary with significant minority interests. The remaining 47.1% shareholding is as summarized below:

Non-controlling shareholders	**Percentage of ownership**
Ivana Bertuzzi	1.6%
Maria Pia Bragaglia	4.2%
Paola Bragaglia	8.3%
Carlo Carpani	0.5%
Rosa Maria Carpani	0.5%
Mario Carpani	0.5%
Pietro Carpani	0.5%
Umberto Cavina	0.3%
Carlo Cremonini	0.5%
Annalisa Gallina	13.3%
Guido Gallina	6.6%
Mirella Melloni	9.9%
Maria Rapezzi	0.2%
Mario Rapezzi	0.2%
Antonio Tiezzi	0.0%
Total	**47.1%**

Note 3 Goodwill

The breakdown of the item goodwill is as follows:

	At December 31,		
	2017	2016	2015
	In Euro thousands		
Goodwill – CGU Rugani Hospital S.r.l.	6,935	6,936	6,936
Goodwill – CGU CMSR Veneto Medica S.r.l.	11,230	11,230	11,230
Goodwill – CGU Villa Von Siebenthal S.r.l.	2,957	2,957	2,957
Goodwill – CGU Fides Medica Group	17,646	-	-
Goodwill – CGU Casa di Cura Prof. Nobili S.p.A.	46	-	-
Total goodwill	**38,815**	**21,123**	**21,123**

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.

In the first IFRS consolidated financial statements, the company opted not to reopen the Business Combinations that occurred before January 1st, 2015. Therefore, the value of goodwill recognized as an opening balance consists of the goodwill values shown in the financial statements at December 31, 2014 determined on the basis of the accounting standards previously applied.

Acquisitions in the year

Refer to Note 2 Acquisitions.

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 for the three financial years at the level of the individual entity, without prejudice to the recently-acquired Fides Medica Group identified as a single CGU.

The Group did not identify impairment test indicators, and carried out an impairment test in December 2017 for the items subject to annual review.

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 4 years with a terminal value forecast, and derive from the 2018-2021 Business Plan approved by the Board of Directors on June 27, 2018 and are developed by referring to the 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* is 0.

The discounting rate of cash flows (WACC) used for the impairment tests is equal to 6% at December 31, 2017, 5.87% at December 31, 2016 and 5.57% at December 31, 2015, and presents the following main parameters:

- *Risk free rate*: the rate used is 2.1% for 2017, 1.45% for 2016 and 1.73% for 2015; this value corresponds to the yield on Italian ten-year government securities measured as a monthly average over the last twelve months (Source: S&P Capital IQ);

- *Beta*: for the estimation of the non-differentiable systemic risk coefficient, reference was made to the inputs elaborated by international practice (Source: S&P Capital IQ), 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 0.5% at December 31, 2017, 0.6% at December 31, 2016 and 0.5% at December 31, 2015;

- *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% (for all three years) was applied 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 Eurirs 10-year loans, average 12 months (Source: S&P Capital IQ) with a spread of 3 points;

- *Financial structure:* consistently with was 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 2017, 0.55 for 2016 and 0.48 for 2015. We and wd weights stood at 61.0% and 39.0% for 2017, respectively equal to 64.5% and 35.5% for 2016 and respectively 67.42% and 32.58% for 2015.

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 four 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 four 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 four 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 four 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 four 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 without any further loss indicators having emerged.

Below we show the balance wacc for each CGU, with reference to 2017:

	WACC e		
	2017	2016	2015
		%	
Goodwill – CGU Rugani Hospital S.r.l.	13.6%	22.2%	13.1%
Goodwill – CGU CMSR Veneto Medica S.r.l.	9.7%	11.7%	9.3%
Goodwill – CGU Villa Von Siebenthal S.r.l..	6.7%	6.2%	5.7%
Goodwill – CGU Fides Medica Group	6.6%	-	-
Goodwill – CGU Casa di Cura Prof. Nobili S.p.A.	20.2%	-	-

Note 4 Other intangible assets

The breakdown of the item Other intangible assets at December 31, 2017, compared with the same values at December 31, 2016 and December 31, 2015, is as follows:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
			In Euro thousands		
Concessions, licenses, trademarks and similar rights	5	22	7	(17)	15
Accreditation	13,528	329	329	13,199	-
Software	711	857	588	(146)	269
Other intangible assets	32	27	43	5	(16)
Total other intangible assets	**14,276**	**1,235**	**967**	**13,041**	**268**

The tables below show the changes in the individual items of Intangible assets for the years ended December 31, 2017, December 31, 2016 and December 31, 2015:

	Concessions, licenses, trademarks and similar rights	Software	Accreditation	Other intangible assets	Assets in progress and advances	Total
			In Euro thousands			
Net book value at January 1, 2015	**2**	**219**	**329**	**53**	**115**	**718**
Additions in the year	8	577	-	10	1	596
Net decreases	–	–	–	–	(76)	(76)
Value adjustments	–	–	–	–	–	–
Reclassifications for transfers	–	40	–	–	(40)	-
Amortization	(3)	(248)	–	(20)	-	(271)
Net book value at December 31, 2015	**7**	**588**	**329**	**43**	**-**	**967**
Additions in the year	21	539	–	4	–	564
Net decreases	–	–	–	–	–	–
Value adjustments	–	–	–	–	–	–
Reclassifications for transfers		–	–	–	–	–
Amortization	(6)	-270		(20)	–	(296)
Net book value at December 31, 2016	**22**	**857**	**329**	**27**	**-**	**1,235**
Additions in the year	3	121	–	–	–	124
Net decreases	(4)	–	-	–	-	(4)
Value adjustments	–	–	–	–	–	–
Reclassifications for transfers	–	–	–	–	–	–
Change in scope of consolidation		25	13,199	31	–	13,255
Amortization	(17)	(291)	–	(26)	–	(334)
Net book value at December 31, 2017	**4**	**712**	**13,528**	**32**	**–**	**14,276**

Concessions, licenses, trademarks and similar rights

The item includes the concessions, licenses, trademarks and similar rights mainly attributable to the company Casa di Cura Villa Garda S.p.A.; the Group's investments were not significant.

In 2016, the Group made investments for Euro 21 thousand relating to the granting of the voice license acquired by Casa di Cura Villa Berica S.p.A.

In 2015, the Group made investments for Euro 8 thousand relating to the concessions, licenses and trademarks of Rugani Hospital S.r.l.

Software

The item Software refers to the applications used by the administrations and for the healthcare activities of the Group companies.

In 2017, the Group made investments in software for a total of Euro 121 thousand relating to the purchase of the application software used by the administrations and for the healthcare activities of the Group companies, mainly attributable for Euro 71 thousand to Hesperia Hospital Modena S.p.A.

In 2016, the Group made investments in software for a total of Euro 539 thousand relating to the purchase of the application software used by the administrations and for the healthcare activities of the Group companies, mainly attributable as follows: (i) Euro 334 thousand for Hesperia Hospital Modena S.p.A., (ii) Euro 119 thousand for L'Eremo di Miazzina S.p.A., (iii) Euro 42 thousand for Casa di Cura Villa Berica S.p.A.

In 2015, the Group made software investments for a total of Euro 577 thousand relating to the purchase of the application software used by the administrations and for the healthcare activities of the Group companies, mainly attributable as follows: (i) Euro 118 thousand relating to Rugani Hospital S.r.l., (ii) Euro 139 thousand relating to Casa di Cura Villa Berica S.p.A., (iii) Euro 92 thousand relating to C.M.S.R. Veneto Medica S.r.l. (iv) Euro 114 thousand related to Casa di Cura Villa Garda S.p.A.

The item underwent a significant increase in the period 2015-2017, and is mainly related to the investments made by the companies: Hesperia Hospital Modena S.p.A. (Euro 443 thousand), Casa di Cura Villa Berica S.p.A. (Euro 209 thousand), L'Eremo di Miazzina S.p.A. (Euro 147 thousand), Rugani Hospital S.r.l. (Euro 144 thousand), for the purchase of the software used by the Group.

Accreditation

The item Accreditation 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.

Institutional accreditation is the process by which the authorized public and private structures acquire the qualification of a subject suitable for the provision of health and social health services on behalf of the Regional Health Service (SSR). The institutional accreditation is issued by the Region and is subject to the possession of the additional accreditation requirements defined by national and regional provisions, as well as the adoption of systems for continuous improvement of the quality of the services provided and monitoring of quality, the activity carried out and results achieved. This category of asset presents the conditions for being considered with indefinite useful life, and therefore this value is subject to an impairment test at least once a year and recorded at cost, net of losses deriving from impairment.

The fair value of the accreditation is 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 4 years with a terminal value forecast, derive from the 2018-2021 Business Plan and are developed taking as reference the expected EBITDA for the only part agreed, net of the imputed taxes and deducted the figurative 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, 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%. These tests did not reveal significantly different results from the recoverable value of the assets subject to impairment tests.

For further details, reference is made to Note 2.

Other intangible assets

The item includes residual categories of assets, which, given their scarce significance, are not in a specific item. The balance at December 31, 2017 is equal to Euro 32 thousand and during the years ended December 31, 2015, December 31, 2016 and December 31, 2017, there were no significant changes.

Assets in progress and advances

The item in question shows a zero balance at December 31, 2017. During the 2015-2017 financial years, it mainly included advances relating to the expenses incurred for the implementation of management software used by the administrations and for the healthcare activities of the Group companies, as well as the costs incurred for the accreditation of healthcare facilities.

Note 5 Property, plant and equipment

The table below shows the breakdown of Property, plant and equipment at December 31, 2017, 2016 and 2015.

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Land and buildings………………………………………………	78,536	68,838	70,128	9,698	(1,290)
Leasehold improvements ……………………………………...	1,403	-	-	1,403	-
Plants and machinery………………………………………....	2,430	2,745	2,527	(315)	218
Industrial and commercial equipment ……….........................	6,601	6,890	7,275	(289)	(385)
Other assets …………………………………………………..	939	805	912	134	(107)
Assets in progress and advances ………..............................	41	2,056	921	(2,015)	1,135
Total ………………………………………………………….	**89,950**	**81,334**	**81,763**	**8,616**	**(429)**

The following tables show the changes in the item in question for the years ended December 31, 2017, December 31, 2016 and December 31, 2015:

	Land and buildings	Leasehold improvements	Plants and machinery	Industrial and commercial equipment	Other assets	Assets in progress and advances	Total
	In Euro thousands						
Net book value at January 1, 2015	**70,820**	–	**2,399**	**7,870**	**964**	**600**	**82,653**
Additions in the year	1,430	–	1,072	986	293	783	4,564
Net decreases	–	–	(255)	–	(7)	–	(262)
Value adjustments	–	–	–	–	–	–	–

Reclassifications for transfers	462	–	(260)	260	–	(462)	–
Depreciation	(2,584)	–	(429)	(1,841)	(338)	–	(5,192)
Net book value at December 31, 2015	**70,128**	**–**	**2,527**	**7,275**	**912**	**921**	**81,763**
Addition in the year	923	–	701	1,328	245	1,631	4,828
Net decreases	–	–	–	(2)	–	–	(2)
Value adjustments	–	–	–	–	–	–	–
Reclassifications for transfers	354	–	–	–	–	(496)	(142)
Depreciation	(2,567)	–	(483)	(1,711)	(352)	–	(5,113)
Net book value at December 31, 2016	**68,838**	**–**	**2,745**	**6,890**	**805**	**2,056**	**81,334**
Additions in the year	1,091	70	101	1,196	272	42	2,772
Net decreases	–	–	(64)	(58)	–	(120)	(242)
Value adjustments	–	–	–	–	–	–	–
Reclassifications for transfers	1,937	–	–	–	–	(1,937)	–
Change in scope of consolidation	9,482	1,399	138	235	213	–	11,467
Depreciation	(2,812)	(66)	(490)	(1,662)	(351)	–	(5,381)
Net book value at December 31, 2017	**78,536**	**1,403**	**2,430**	**6,601**	**939**	**41**	**89,950**

Land and buildings

The item mainly includes the properties owned by the nursing homes and amounted to Euro 78,536 thousand at December 31, 2017, compared to Euro 68,838 thousand in 2016 and Euro 70,128 thousand in 2015.

The item increased in 2017 by Euro 9,698 thousand compared to the previous year 2016, and is mainly attributable to: (i) the change in the scope of consolidation (Euro 752 thousand from Casa di Cura prof. Nobili S.p.A. and Euro 8,730 thousand from the Fides Medica Group); (ii) the increase for the work carried out at Rugani Hospital S.r.l. for an additional 40 beds, relating both to investments for the year of Euro 633 thousand and to the completion of works done in previous years for Euro 1,937 thousand; (iii) the construction of the works for the accommodation of the kitchen spaces of L'Eremo di Miazzina S.p.A. for Euro 216 thousand; (iv) mitigated by the effect of depreciation for the period.

In 2016, the item decreased by Euro 1,290 thousand, mainly due to: (i) an increase in investments of Euro 923 thousand, of which Euro 624 thousand referring to restructuring and modernization work related to the normal cycle of the company Hesperia Hospital Modena S.p.A. (ii) the completion of some renovation work of Villa Von Siebenthal S.r.l., for a value of Euro 138 thousand; (iii) the modernization of the structure of Via Caparrozzo of Casa di Cura Villa Berica S.p.A., equal to Euro 82 thousand; (iv) the work carried out at the facility of Cambiasca de L'Eremo of Miazzina S.p.A., equal to Euro 79 thousand. (v) mitigated by the effect of depreciation for the period.

In 2015, the item decreased for a value of Euro 692 thousand, mainly due to: (i) the increase in total investments of Euro 1,430 thousand, mainly referred to (a) for Euro 1,069 thousand to Hesperia Hospital Modena S.p.A. for the restructuring and modernization of the operating rooms, the conference room and the adaptation to fire regulations and (b) for Euro 288 thousand to L'Eremo di Miazzina S.p.A. for some work carried out in the instrumental building located in the Municipality of Cambiasca; (ii) mitigated by the effect of depreciation for the period.

This item includes the allocation of the higher value deriving from the difference at the time of first consolidation between the carrying amount and the corresponding portion of the shareholders' equity of Hesperia Hospital Modena S.p.A. for original Euro 7,000 thousand; this item shows a balance at December 31, 2017 of Euro 3,360 thousand, at December 31, 2016 of Euro 3,570 thousand and at December 31, 2015 of Euro 3,780 thousand.

At the closing date of the financial year, no impairment losses of fixed assets were recorded in the financial statements.

Leasehold improvements

The item increased in 2017 by Euro 1,403 thousand compared to the previous year 2016, and is mainly attributable to: (i) the change in the scope of consolidation for Euro 1,399 thousand, with the inclusion within the Group of the companies relating to the Fides Group; (ii) non-routine maintenance work for Euro 70 thousand carried out at the “Le Clarisse” senior residence of which the company is lessee and (iii) mitigated by the effect of depreciation for the period. The “Le Clarisse” structure is a healthcare facility with a capacity of 74 beds divided into: protected residence, rehabilitation and maintenance RSA.

Plants and machinery

The item Plants and machinery amounted to Euro 2,430 thousand at December 31, 2017, net of accumulated depreciation, compared to Euro 2,745 thousand in 2016 and Euro 2,527 thousand in 2015.

Investments in 2017 amounted to Euro 101 thousand and mainly refer to the purchase of sanitary machinery and maintenance work on fixed and generic plants of the structures of C.M.S.R. Veneto Medica S.r.l. (for Euro 27 thousand), of Casa di Cura Villa Berica S.p.A. (for Euro 35 thousand), Hesperia Hospital Modena (for Euro 22 thousand) and Rugani Hospital S.r.l. (for Euro 12 thousand). The value of increases for purchases is mitigated by the effect of depreciation for the year.

In 2016, total investments were made for Euro 701 thousand and mainly refer to the purchase of sanitary machinery and maintenance work on fixed and generic plants of the Casa di Cura Villa Garda S.p.A. structures (for Euro 44 thousand), of Casa di Cura Villa Berica S.p.A. (for Euro 129 thousand) and Hesperia Hospital Modena S.p.A. (for Euro 517 thousand).

In 2015, total investments were made for Euro 1,072 thousand and mainly refer to the purchase of sanitary machinery and maintenance work on fixed and generic plants of the Casa di Cura Villa Garda S.p.A. structures. (for Euro 46 thousand), of Villa Von Siebenthal S.p.A. (for Euro 129 thousand) and Hesperia Hospital Modena (for Euro 829 thousand).

Industrial and commercial equipment

The item Industrial and commercial equipment amounted to Euro 6,601 thousand at December 31, 2017, compared to Euro 6,890 thousand in 2016 and to Euro 7,275 thousand at December 31, 2015, net of accumulated depreciation.

During the year 2017, investments totalling Euro 1,196 thousand were made in relation to the purchase of specific healthcare equipment used for medical services provided mainly by: Casa di Cura Villa Berica S.p.A. for Euro 351 thousand, Hesperia Hospital Modena S.p.A. for Euro 212 thousand, CMSR Veneto Medica S.r.l. for Euro 176 thousand, Rugani Hospital S.r.l. for Euro 361 thousand. Depreciation for the year amounted to Euro 1,662 thousand.

In 2016, investments totalling Euro 1,328 thousand were made in relation to the purchase of specific healthcare equipment used for the provision of medical services provided mainly by: Hesperia Hospital Modena S.p.A. for Euro 426 thousand, Rugani Hospital S.r.l. for Euro 154 thousand, Casa di Cura Villa Berica S.p.A. for Euro 270 thousand. Depreciation for the year amounted to Euro 1,711 thousand.

In 2015, investments totalling Euro 986 thousand were made in relation to the purchase of specific healthcare equipment used for the provision of medical services provided mainly by: Rugani Hospital S.r.l. for Euro 144 thousand, Casa di Cura Villa Berica S.p.A. for Euro 136 thousand, L’Eremo di

Miazzina S.p.A. for Euro 68 thousand and Hesperia Hospital Modena for Euro 523 thousand. Depreciation for the year amounted to Euro 1,841 thousand.

In addition, the item includes various leasing contracts stipulated by each nursing home for purchase at the end of the lease contract of the healthcare equipment, which have a net book value of Euro 1,443 thousand for the 2017 financial year, Euro 1,567 thousand for the 2016 financial year and Euro 1,663 thousand at December 31, 2015.

The Group has recorded the lease according to the financial method, in accordance with international accounting standard IAS 17. In 2017, 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. At December 31, 2017, this item amounted to Euro 939 thousand and is almost in line with the values for 2016 and 2015. In 2017, investments were made for a total of Euro 272 thousand mainly related to: (i) for Euro 130 thousand to the company Rugani Hospital S.r.l., relating to furniture and furnishings purchased in relation to the entry into operation of a new 40 beds; (ii) for Euro 40 thousand to the company C.M.S.R. Veneto Medica, related to furniture and furnishings and some electronic office machines; (iii) for Euro 38 thousand to Hesperia Hospital Modena S.p.A. relating to furniture and furnishings; (iv) for Euro 36 thousand to the company Casa di Cura Villa Berica S.p.A. referring to electronic machines. The change in the item is also related to: (i) the increase of Euro 213 thousand due to the change in the scope of consolidation related to the Fides Medica Group and Casa di Cura Prof. Nobili S.p.A.; (ii) depreciation for the year of Euro 351 thousand.

In 2016, investments were made for a total of Euro 245 thousand mainly related to: (i) for Euro 103 thousand to the company L’Eremo di Miazzina S.p.A., referring to electronic and mobile machines and furnishings; (ii) for Euro 57 thousand to the company Hesperia Hospital Modena S.p.A., relating to electronic machines (for Euro 32 thousand) and, in a residual way, furniture and furnishings; (iii) for Euro 25 thousand to the company Rugani Hospital S.r.l. relating to furniture and furnishings and electronic machinery; (iv) for Euro 24 thousand to the company Villa Von Siebenthal S.r.l., referable to furniture and furnishings and some electronic office machines. Depreciation for the year amounted to Euro 352 thousand.

In 2015, investments were made for a total of Euro 293 thousand mainly related to: (i) for Euro 20 thousand to the company Rugani Hospital S.r.l., relating to furniture and furnishings; (ii) for Euro 143 thousand to the company Hesperia Hospital Modena S.p.A., relating to office machines (for Euro 72 thousand) and, in a residual way, furniture and furnishings; (iii) for Euro 64 thousand to Casa di Cura Villa Berica S.p.A., referring to electronic machines and furniture and furnishings. Euro 44 thousand refers to purchases under leases of other assets of L’Eremo di Miazzina. Depreciation for the year amounted to Euro 338 thousand.

Assets in progress and advances

At December 31, 2017, the item amounted to Euro 41 thousand, compared with a value of the previous year, of Euro 2,056 thousand and of Euro 921 thousand at December 31, 2015.

The breakdown and composition of investments made in the period 2015-2017 is shown below:

Company	Description of intervention	At December 31, 2017	2016	2015
		In Euro thousands		
Rugani Hospital S.r.l.	Realization 40 beds……………....................	-	1,928	305
L'Eremo di Miazzina S.p.A.	Renovation work Kitchen areas ……………	-	120	120
Villa Von Siebenthal S.r.l.	Renovation work Building ……………..........	-	-	212
Casa di Cura Villa Berica S.p.A.	Renovation work Industrial Building ………..	-	-	142
Hesperia Hospital Modena S.p.A.	Renovation work Industrial Building ………..	-	-	142
	Other ……...	41	8	-
	Total assets in progress and advances …	**41**	**2,056**	**921**

At December 31, 2017, investments of the item assets in progress, amounting to Euro 41 thousand, relate to work carried out and not completed with reference mainly to Casa di Cura Villa Berica S.p.A. In the year, the item shows the decrease related to the completion of the work to expand the buildings of the structure of Rugani Hospital S.r.l. for the realization of 40 new beds, for Euro 1,937 thousand.

At December 31, 2016, investments of the item assets in progress, equal to Euro 1,631 thousand, are related for Euro 1,623 thousand to the work for the realization of the 40 beds of Rugani Hospital S.r.l. In the year, the item shows the decrease due to the completion of the renovation work of the properties of Villa Von Siebenthal S.r.l., Casa di Cura Villa Berica S.p.A. and Hesperia Hospital Modena S.p.A.

At December 31, 2015, investments of the item assets in progress, amounting to Euro 783 thousand, refer to: (i) Euro 287 thousand relating to the realization of the 40 beds of Rugani Hospital S.r.l. (ii) Euro 142 thousand for Hesperia Hospital Modena S.p.A., due to renovation work on the building not completed at December 31, 2015, (iii) Euro 142 thousand relating to renovation work of the building of Casa di Cura Villa Berica S.p.A., (iv) Euro 212 thousand for the building of Villa Von Siebenthal S.r.l. In the year, the item shows the decrease due to the completion of the renovation work of the property of Hesperia Hospital Modena S.p.A.

Note 6 Investments properties

The table below shows the breakdown of Investments properties at December 31, 2017, 2016 and 2015.

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Investments properties	1,063	927	961	136	(34)
Total investments properties.....................................	**1,063**	**927**	**961**	**136**	**(34)**

The Group's Investments properties mainly refer to the apartments owned by L'Eremo di Miazzina S.p.A., for an amount of Euro 846 thousand; Hesperia Hospital Modena S.p.A., for an amount of Euro 48 thousand and, starting from the financial year ended 31.12.2017, FI.D.ES. Medica S.r.l., for Euro 169 thousand. These are properties that are non-industrial and non-instrumental for the Group's core business and are held with the specific purpose of investment. For these reasons, in accordance with IAS 40, these real estate properties have been classified as an investment and valued by applying the cost model. The value recorded is represented by the historical cost minus the accumulated depreciation rates.

The useful life of the Group's Investments properties is 33 years in relation to the duration of the contract; depreciation is at constant rates.

Assets are not leased; therefore, there are no revenues for rents, nor direct operating costs.

There are no restrictions on the possibility of realization by the Group of Investments properties or contractual obligations to purchase, build or develop Investments properties, nor to carry out maintenance, repairs or improvements.

It is noted that at December 31, 2017, the fair value of the aforementioned properties is equal to: Euro 1.4 million for the property of L'Eremo di Miazzina S.p.A., Euro 122 thousand for the property of Hesperia Hospital Modena S.p.A. and Euro 171 thousand for the property of FI.D.ES. Medica S.r.l..

Please refer to the information on the fair value hierarchy for Investments properties in Note 40. In this regard, it is clarified as follows:

- the level of the fair value hierarchy of the valuation appears to be Level 3, i.e. inputs that are not observable, obtained with an estimate of the market value taking into account the average value of the values indicated by the Revenue Agency Database O.M.I. and the Borsino Immobiliare database (2018) for properties similar to those estimated;
- it is noted that the fair value as described above obtained is greater than the current value in use approximated to the net book value of the aforementioned item.

Note 7 Equity investments

The value of equity investments amounted to Euro 788 thousand at December 31, 2017 and refers to investments in associated companies for Euro 739 thousand and to capital instruments for Euro 49 thousand.

The value of equity investments amounted to Euro 43 thousand and Euro 42 thousand respectively at December 31, 2016 and 2015, and the amounts refer to capital instruments.

Equity investments in associates and JVs

The table below shows the details of investments in associates for the years 2015-2017.

	At December 31,			Change	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
	In Euro thousands				
Il Fiocco S.c.a.r.l.	739	-	-	739	-
Total investments in associates and JVs	**739**	**-**	**-**	**739**	**-**

Investments in associated companies refer entirely to the company "Il Fiocco S.c.a.r.l.", in which the Group holds a 40% shareholding due to the acquisition of the Fides Group in 2017.

The main economic-financial data of the associate of the last available year are shown below:

	2017
Current assets ………………………………………………………………………......	2,022
Non-current assets………………………………………………………………………	521
Current liabilities…………………………………………………………………………	(1,381)
Non-current liabilities ………………………………………………………………………	(579)
Shareholders' equity…………………………………………………………………………..	(583)
Portion pertaining to the Group - 40%…...……………………………..	233

Goodwill……………………………………………………………………………………	506
Carrying amount of the Group investment…………………………………………	**739**

	2017
Revenues …………………………………………………………………………………………	5,036
Cost of goods sold ………………………………………………………………………………	(4,332)
Amortization, depreciation and write-downs………………………………………………………………...	(352)
Financial expenses ………………………………………………………………………………..	(17)
Pre-tax profit ……………………………………………………………………………	335
Taxes………………………………………………………………………………	(173)
Net profit of the year (from operating activities) ……………………………………	**162**
Other items of the Comprehensive Income Statement that will be subsequently reclassified in the profit/(loss) of the year net of taxes …………………….	
Total Comprehensive Income Statement (from operating activities) …………….....	162
Group net profit of the year ………….. ………………………………………..	65

The associate has no contingent liabilities or commitments at December 31, 2017.

Capital instruments

The following is the breakdown of capital instruments:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Banca Valpolicella Benaco Coop...……	5	5	5	-	-
C.O.P.A.G. S.p.A. ……………………..	1	1	1	-	-
Iatli S.p.A. ………………………………	-	2	2	(2)	-
CAAF Emilia Centrale…………………..	3	3	2	-	1
Sada S.r.l. ………………………………	-	10	10	(10)	-
Poliambulatorio Exacta S.r.l. …………..	11	11	11	-	-
Ottica Modenese ………………………..	11	11	11	-	-
SI4Life SCARL ………………………….	17	- -		17	-
Other Consortia ……………………………	1	- -		1	-
Total capital instruments …………	**49**	**43**	**42**	**6**	**1**

The balance of the item consists of the capital instruments in which the companies 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 dominant or significant influence, and in any case less than one-fifth of the share capital; it is noted that the purchase cost approximates the fair value as there is no active market for the above portions, and if the company hypothesizes to sell them, it plans to recover the full purchase price.

It should be noted that in relation to the investment in the Polyclinic Exacta S.r.l. whose gross recognition value is equal to Euro 63 thousand, the write-down already carried out in previous years was conservatively maintained for a total of Euro 52 thousand, while in 2017, the equity investments in Iatli S.p.A. for Euro 2 thousand and in Sada S.r.l. for Euro 10 thousand were written down fully.

Note 8 Other non-current financial assets

The item "Other non-current financial assets" is equal to Euro 56 thousand and mainly includes the security deposits of Group companies in relation to third parties.

The table below shows the details of other non-current financial assets for the 2015, 2016 and 2017 financial years.

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Security deposits ……………………………….……	47	42	43	5	(1)
Financial receivables from others…………………	9	-	-	9	-
Total other non-current financial assets ….……	**56**	**42**	**43**	**14**	**(1)**

Note 9 Other non-current assets

The item "Other non-current assets" is equal to Euro 1,084 thousand and includes Euro 1,067 thousand for receivables beyond the year relating to the tax on the realignment between the book value and the tax value of the goodwill recorded following the reverse merger of Garofalo Veneta S.r.l. in CMSR Veneto Medica S.r.l. The composition of the item remained essentially unchanged during the 2016 and 2015 financial years.

The table below shows the breakdown of other non-current assets for the 2015-2017 financial years.

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Substitute redemption tax assets ……...	1,067	1,144	1,220	(77)	(76)
Receivables from others ……………….	17	16	13	1	3
Total other non-current assets ……...	**1,084**	**1,160**	**1,233**	**(76)**	**(73)**

Note 10 Deferred tax assets and liabilities

Deferred tax assets and liabilities

The composition of deferred tax assets and liabilities at December 31, 2017, compared with the balance at December 31, 2016, and at December 31, 2015 is as follows:

	At December 31,		
	2017	2016	2015
	In Euro thousands		
Deferred tax assets:			
within 12 months …………………………………………………..	-	-	-
beyond 12 months…………………………………………………	3,326	3,013	3,419
Total ………………………………………………………………………	**3,326**	**3,013**	**3,419**
Deferred tax liabilities:			
within 12 months …………………………………………………..	–	–	–
beyond 12 months …………………………………………………	(7,642)	(3,203)	(2,654)
Total ………………………………………………………………………	**(7,642)**	**(3,203)**	**(2,654)**
Net balance …………………………………………………………..	**(4,316)**	**(190)**	**765**

It is recalled that 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 used.

The table below shows the total changes in deferred tax assets and liabilities for deferred taxes for the years ended December 31, 2017 and 2016.

	At December 31,	
	2017	2016
	In Euro thousands	
Net balance at the beginning of the year	**(190)**	**765**
Credit/(Debit) recorded in the Income Statement	(527)	(1,155)
Change Scope of consolidation	(3,587)	-
Credit/(Debit) recorded in equity	(12)	200
Net balance at the end of the year	**(4,316)**	**(190)**

Net deferred tax assets and liabilities at December 31, 2017 amounted to Euro 4,316 thousand with a net value of the previous year of Euro 190 thousand. The change in the year amounted to Euro 4,126 thousand mainly due: (i) the recognition of deferred tax liabilities relating to the value of the “accreditation” recorded in connection with the acquisition of the Fides Group for Euro 2,304 thousand, and to Casa di Cura Prof Nobili for Euro 1,373 thousand; (ii) the decrease in deferred taxes recorded with reference to the gain allocated to the Building of Hesperia Hospital Modena S.p.A. for Euro 59 thousand; (iii) the change relating to the reversal of goodwill equal to Euro 740 thousand; (iv) the use of tax losses for Euro 211 thousand; (v) the effect on deferred tax assets of the provision for risks and charges for Euro 292 thousand.

Net deferred tax assets and liabilities at December 31, 2016 amounted to negative Euro 190 thousand with a net value of the previous year positive for Euro 765 thousand. The change in the year amounted to Euro 955 thousand and is mainly due to: (i) the decrease in deferred taxes recorded with reference to the gain allocated to the Building of Hesperia Hospital Modena S.p.A. for Euro 59 thousand; (ii) the change relating to the reversal of the goodwill amounting to Euro 580 thousand; (iii) the recognition of tax losses for Euro 33 thousand; (iv) the effect on deferred tax assets of the use of provisions for Euro 406 thousand.

It is recalled that the 2016 Stability Law envisaged a reduction in the IRES rate from 27.5% to 24% starting January 1st, 2017, with effect from the tax periods subsequent to the current period at December 31, 2016. The Company therefore proceeded to recalculate deferred tax assets and deferred tax liabilities due after 12 months on the basis of the new IRES rate of 24%, as of January 1st, 2015. The IRAP rate used was 3.9%.

The details of net deferred taxes at December 31, 2017, 2016 and 2015 are shown in the following table:

	Statement of Financial Position					Consolidated Comprehensive Income Statement			Consolidated Income Statement		
DESCRIPTION	**2017**	**2016**	**2015**	**Change Scope of Consolidation**	**Other Changes**	**2017**	**2016**	**2015**	**P&L 2017**	**P&L 2016**	**P&L 2015**
									In Euro thousands		
Gross-up Accreditation and Industrial Building	(4,767)	(996)	(1,055)	(3,830)	-	-	-		59	59	59
Amortization goodwill	(1,289)	(549)	31	-	-	-	-	-	(740)	(580)	(671)
Provision for risks and charges	1,523	1,002	1,408	229	-	-	-	-	292	(406)	(206)
Tax losses	159	370	337	-	-	-	-	-	(211)	33	(75)
Provision for bad debts	109	34	107	15	-	-	-	-	60	(73)	5

Default interest not collected	(68)	(68)	(68)	-	-	-	-	-	-	-	-
Derivative instruments	7	9	8	-	-	-	-	-	(2)	1	(10)
Adjustments IAS40 Depreciation /Amortization	32	24	16	-	-	-	-	-	8	8	8
Adjustments IAS17 Financial leases	(172)	(148)	(113)	-	-	-	-	-	(24)	(35)	(27)
Adjustments IAS19 – TFR	113	133	93	3	-	(12)	200	382	(11)	(164)	245
Equity Method	(8)	-	-	-	-	-	-	-	(8)	-	-
Other Changes	45	(1)	1	(4)	-	-	-	-	50	2	1
Total	**(4,316)**	**(190)**	**765**	**(3,587)**	**-**	**(12)**	**200**	**382**	**(527)**	**(1,155)**	**(671)**
Deferred tax assets	3,326	3,013	3,419						(55)	619	192
Deferred tax liabilities	(7,642)	(3,203)	(2,654)						582	536	479
Net deferred tax assets/liabilities	**(4,316)**	**(190)**	**765**						**(527)**	**(1,155)**	**(671)**

Note 11 Inventories

The following table shows the details of inventories at December 31, 2017, 2016 and 2015.

At December 31, 2017, they amounted to Euro 2,352 thousand, Euro 2,728 thousand at December 31, 2016 and Euro 2,897 thousand at December 31, 2015. This item, consisting exclusively of raw and ancillary materials and consumables, refers to the materials destined for the clinical-hospital activities of the Group companies, as detailed in the table below.

	At December 31,			Change	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
	In Euro thousands				
Raw and ancillary materials and consumables	2,352	2,728	2,897	(376)	(169)
Obsolescence provision for raw and ancillary materials and consumables	-	-	-	-	-
Inventories	**2,352**	**2,728**	**2,897**	**(376)**	**(169)**

Inventory levels remained essentially unchanged in 2015 and 2016. In the financial year ended December 31, 2017, the item recorded a reduction of Euro 376 thousand in relation to: (i) the trend in inventories of Hesperia Hospital Modena S.p.A., which decreased by 35% compared to 2016, following a policy of greater efficiency in stocks; (ii) inclusion in the scope of consolidation of clinics: Casa di Cura Prof. Nobili S.p.A., Sanimedica S.r.l., RO. E MAR. S.r.l., Centro di Riabilitazione S.r.l., FI.D.ES. Medica S.r.l., Prora S.r.l., Genia Immobiliare S.r.l. starting from 2017.

For the remaining companies, the changes compared to the previous year are not significant, and related to the normal rotation of the warehouse.

Note 12 Trade receivables

Trade receivables are recorded in the financial statements at December 31, 2017 for Euro 38,399 thousand compared to a value of Euro 36,123 thousand at December 31, 2016 and Euro 37,474 thousand at December 31, 2015; they represent credit positions of a commercial nature. The breakdown is as follows:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Receivables from private customers ……………………………….....	6,079	4,010	4,007	2,069	3
Receivables from ASL/USL/USLL………………………………………	32,131	30,205	32,629	1,926	(2,424)
Receivables for invoices to be issued and credit notes to be issued...	2,765	3,642	3,131	(877)	511
Other receivables ……………………………...…………………….	292	349	1,355	(57)	(1,006)
Provision for bad debts …………………………………....................	(2,868)	(2,083)	(3,648)	(785)	1,565
Total trade receivables ……………………..……………………	**38,399**	**36,123**	**37,474**	**2,276**	**(1,351)**

Receivables from customers are entirely referred to services rendered in the national territory and, there are no receivables due after 12 months.

Below is the change in the provision for bad debts, presenting the change with the indication of provisions and uses:

	At December 31,								
	2017	Acc.	Recl.	Use	Change Scope of Consolidation	2016	Acc.	Use	2015
	In Euro thousands								
Total provision for bad debts..	**2,868**	**206**	**684**	**(305)**	**200**	**2,083**	**291**	**(1,856)**	**3,648**

The provision for bad debts increased in 2017 with respect to 2016 by Euro 785 thousand, due to: (i) the provision for 2017, for a total of Euro 890 thousand, consisting mainly of Euro 684 thousand to L'Eremo di Miazzina S.p.A., Euro 73 thousand to the Fides Medica Group, Euro 61 thousand to Hesperia Hospital Modena S.p.A., Euro 50 thousand to Rugani Hospital S.r.l., (ii) the use, Euro 305 thousand in total, mainly attributable to Hesperia Hospital Modena S.p.A. for Euro 266 thousand, (iii) the effects of the change in the scope of consolidation referring to the entry of the Fides Group and Casa di Cura Prof Nobili S.p.A..

The provision for bad debts increased in 2016 with respect to 2015 by Euro 1,565 thousand, due to: (i) the 2016 provision, for a total of Euro 291 thousand, mainly consisting of Euro 269 thousand to Hesperia Hospital Modena S.p.A., Euro 14 thousand to Casa di Cura Villa Berica S.p.A., (ii) the use mainly attributable to Hesperia Hospital Modena S.p.A. for Euro 1,311 thousand, by virtue of the achievement of agreements relating to previous years, (iii) the effects of the change in the scope of consolidation related to the entry of the Fides Group.

With regard to the mechanisms for determining expected losses, IFRS 9 does not identify a specific approach for estimating expected losses; therefore, in consideration of the nature of the receivables, the Company has decided to apply a "loss rate approach", which consists in determining loss percentages on a statistical basis determined according to the losses recorded respectively over the 12 months and the residual life of the receivables, and adjusting these historical trends to take into account current conditions and future expectations. Therefore, the Company divided its loan portfolio on the basis of homogeneous risk characteristics and then proceeded to determine for each portfolio, thus identified, a loss rate based on the historical default experience for each portfolio. The Company then updated the historical rates thus obtained to take into account current economic conditions as well as reasonable forecasts on future economic conditions.

Note 13 Tax receivables

The table below shows the breakdown of tax receivables at December 31, 2017, 2016 and 2015:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
		In Euro thousands			
Other receivables and current assets – tax receivables for IRES and IRAP requests	693	693	730	0	(37)
Tax receivables – advance IRES taxes	383	553	8	(170)	545
Tax receivables – advance IRAP taxes	25	271	374	(246)	(103)
Tax receivables – from tax consolidation	586	1,119	905	(533)	214
Tax receivables – other tax receivables	331	25	5	306	20
Total tax receivables	**2,018**	**2,661**	**2,022**	**(643)**	**639**

Tax receivables at December 31, 2017 amounted to Euro 2,018 thousand with a value of the previous year of Euro 2,661 thousand. At December 31, 2017, the item mainly consisted of receivables for taxes deriving from IRES and IRAP requests (Euro 693 thousand), IRES and IRAP tax advances (Euro 408 thousand) and receivables from tax consolidation (Euro 586 thousand). The change in the period compared to the financial year ended December 31, 2016 is negative and equal to Euro 643 thousand, mainly related to: (i) the decrease in receivables from tax consolidation of Euro 533 thousand in 2017 compared to the previous year; this change mainly refers to the companies Garofalo Health Care S.p.A., CMSR Veneto Medica S.r.l., L'Eremo di Miazzina S.p.A., (ii) the reduction in the balance of receivables for IRES and IRAP tax advances totalling Euro 416 thousand deriving from lower advances paid by the company Hesperia Hospital Modena S.p.A., (iii) the increase in other tax receivables for Euro 306 thousand; of which Euro 251 thousand related to the tax receivable of Hesperia Hospital Modena S.p.A. recorded in the year.

Tax receivables at December 31, 2016 amounted to Euro 2,661 thousand with a value of the previous year of Euro 2,022 thousand. At December 31, 2016, the item mainly consisted of receivables for taxes deriving from IRES and IRAP requests (Euro 693 thousand), IRES and IRAP tax advances (Euro 824 thousand) and receivables from tax consolidation (Euro 1,119 thousand). The change in the period compared to the financial year ended December 31, 2015 is positive and equal to Euro 639 thousand, mainly related: (i) to the increase, compared to the previous year, of receivables from tax consolidation for Euro 214 thousand; this change mainly refers to the companies Garofalo Health Care S.p.A., CMSR Veneto Medica S.r.l., L'Eremo di Miazzina S.p.A., (ii) to the increase in the balance of receivables for IRES and IRAP tax advances totalling Euro 416 thousand deriving from higher advances paid by the company Hesperia Hospital Modena S.p.A.

Note 14 Other receivables and current assets

The value of receivables from others at December 31, 2017 is equal to Euro 1,506 thousand, compared to a value of Euro 1,253 thousand in the previous year, recording an increase of Euro 253 thousand. Below is the breakdown of the item:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
			In Euro thousands		
Other receivables and current assets - advances from supplier…..	229	194	211	35	(17)
Other receivables and current assets - receivables from others	508	526	454	(18)	72
Other receivables and current assets - receivables from employees ….	5	3	5	2	(2)
Other receivables and current assets - receivables from social security institutions …	13	19	9	(6)	10
Other tax receivables ………	167	134	152	33	(18)
Other receivables and current assets - accrued and deferred assets (non-financial) ……	584	377	191	207	186
Total other receivables and current assets……………	**1,506**	**1,253**	**1,022**	**253**	**231**

In the three-year period, the item mainly consists of the following components: (i) supplier advances of Euro 229 thousand at December 31, 2017, equal to Euro 194 thousand at December 31, 2016 and equal to Euro 211 thousand at December 31, 2015; the item mainly consists of advances to suppliers paid by Hesperia Hospital Modena S.p.A. to which the change refers; (ii) receivables from others for a total value of Euro 508 thousand at December 31, 2017, Euro 526 thousand at December 31, 2016 and Euro 454 thousand at December 31, 2015; this item mainly consists of receivables attributable to Villa Von Siebenthal S.r.l. for an amount equal to Euro 429 thousand; for details of the origin of such receivables reference is made to Note 41.4. In consideration of the nature of the receivables, the Company has decided to apply a "loss rate approach", which consists in determining loss percentages on a statistical basis determined according to the losses recorded respectively over the 12 months and the residual life of the receivables, and adjusting these historical trends to take into account current conditions and future expectations. As already anticipated, the impairment model introduced by accounting standard IFRS 9 is based on the concept of "forward looking" valuation (zero), i.e. on the notion of expected loss, whether it is calculated at 12 months (Stage 1) or until residual life of the instrument (Stage 2 and Stage 3), based on the concept of SICR with respect to the date of origin of the instrument. According to the Expected Loss calculation model, losses must be recorded on the basis of objective evidence of impairment losses already manifested at the reporting date, but also on the basis of the expectation of future losses in value that have not yet occurred at the reporting date; (iii) accrued and deferred assets related to non-financial assets for Euro 584 thousand at December 31, 2017, Euro 377 thousand at December 31, 2016 and equal to Euro 191 thousand at December 31, 2015; this item increased in 2017 compared to the previous year by Euro 207 thousand; the breakdown of this balance derives mainly from assets related to Hesperia Hospital Modena S.p.A. for an amount of Euro 108 thousand, Casa di Cura Prof. Nobili S.p.A. for an amount equal to Euro 141 thousand, and CMSR Veneto Medica S.r.l. for an amount equal to Euro 156 thousand. The change recorded in 2016 compared to the previous year is mainly due to the item non-financial accruals and deferrals, which shows an increase of Euro 186 thousand, in relation to the recognition of non-financial deferred assets of Hesperia Hospital Modena S.p.A. for a total of Euro 134 thousand relating to some non-accrued fees invoiced and accounted for before the end of the year.

Note 15 Cash and cash equivalents

Below is the breakdown of the item:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Bank accounts	22,544	19,106	15,954	3,438	3,152
Cheques and cash	91	86	69	5	17
Total cash and cash equivalents	**22,635**	**19,192**	**16,023**	**3,443**	**3,169**

The values shown can be converted into cash promptly and are subject to a non-significant risk of change in value.

The Garofalo Health Care Group believes that the credit risk associated with cash and cash equivalents is limited because it mainly consists of deposits split over national banking institutions.

The aforementioned item is also subject to the general rule of impairment, and the "loss rate approach" was 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.

Reference is made to Note 19 Financial payables - "Cash flow statement" that are not current with reference to the composition of the net financial position at December 31, 2017, December 31, 2016 and December 31, 2015.

Note 16 Equity

Share capital

At December 31, 2017, 2016 and 2015, the share capital amounted to Euro 300 thousand, fully paid-in, and consists of 300,000 shares with nominal value of Euro 1 each. The Company's share capital remained unchanged over the three-year period. The consolidation of the Companies subject to reorganization for periods prior to the date of their transfer to the Company following the Reorganization was reflected in equity reserves.

The following table shows the number of shares and the relative percentage of the share capital held by the shareholders of the Company at the date of the Offering Circular.

Shareholder	Number of shares	Percentage of ownership
Larama 98 S.p.A.	227,586	75.86%
Maria Laura Garofalo	53,290	17.76%
An.rama S.p.A.	9,397	3.14%
GBL Fiduciaria S.p.A.	9,659	3.22%
Claudia Garofalo	68	0.02%
Total	**300,000**	**100.00%**

Legal reserve

At December 31, 2016 and 2015, the legal reserve amounted to Euro 20 thousand; in 2017, following the allocation of the result, this reserve increased by Euro 20 thousand. The balance of the legal reserve at December 31, 2017 amounted to Euro 40 thousand.

Other reserves

A breakdown of the item Other reserves at December 31, 2017, 2016 and 2015 is shown below:

	At December 31,		
	2017	2016	2015
Extraordinary reserve	15,378	13,343	7,821
Capital contributions reserve	5,146	5,146	5,146
Transfer reserves	37,006	11,034	-
IAS 19 actuarial effects reserve	(139)	(164)	458
First Time Adoption reserve	2,320	2,320	2,320
Retained earnings	22,974	39,259	51,203
Other reserves	**82,685**	**70,938**	**66,948**

The optional exemptions applied by the Company in the context of this transition are highlighted below:

- **Business combinations.** As described previously in Note 1, the consolidated financial statements include the companies subject to reorganization for the periods prior to the date of their transfer to the Company following the reorganization; this combination was made possible because the Companies subject to reorganization were, for periods prior to the date of their transfer to the Company, under the control of the entities and individuals connected with the ownership. For these companies and for the company already controlled on January 1st, 2015 (Hesperia Hospital Modena S.p.A.), with reference to their acquisition by third parties, by the entities and individuals connect with the ownership prior to January 1st, 2015. For the business combinations carried out in relation to third parties and before January 1st, 2015, the Group availed itself of the option provided for by IFRS 1 and therefore the methods of accounting for operations of business combinations of companies before January 1st, 2015, transition date, were not changed.

- **Valuation of fixed assets and Investments properties.** For the accounting of tangible and intangible assets and Investments properties, the historical cost method has been maintained, as an alternative to fair value, as an evaluation criterion after initial recognition.

And the accounting treatment selected from the options provided by IFRS:

- **Valuation of fixed assets and Investments properties**. Subsequent to initial recognition at cost, IAS 16, IAS 38 and IAS 40 provide that these assets may be valued at cost, net of depreciation and amortization or fair value. The company has adopted the cost method.

- **Valuation of inventories**. The Group has chosen to adopt the FIFO method as an inventory cost, as an alternative to the weighted average cost.

- **Employee benefits**. The provision for employee severance indemnities was determined at the transition date based on actuarial calculations; the Group has decided to account for actuarial gains and losses among the components of the comprehensive income statement.

In the transition to the IAS/IFRS, the estimates previously determined according to the Italian accounting standards have been maintained, unless the adoption of the IAS/IFRS international accounting standards required the formulation of estimates according to different methods.

The Reserve for first-time adoption of IFRS, positive for an amount of Euro 2,320 thousand at December 31, 2015, represents the effects on Equity of the transition to the IAS/IFRS of the Garofalo Health Care Group and is mainly due to the elimination of a provision for the contractual renewal of employees for Euro 2,140 million, for which the requisites envisaged by IAS 37 do not exist. The detail of the effects on Equity is represented in the following table:

	First Time Adoption Reserve 1.1.2015
Adjustment IAS 38 – for reversal of start-up and expansion costs	(11)
Adjustment IAS 38 – for reversal of accreditation amortization	(11)
Adjustment IAS 17 – on financial lease contracts	272
Adjustment IFRS 9 – on non-hedging derivative instruments	(55)
Adjustment IAS 40 – on Investments properties	(21)
Adjustment IFRS 9 – on amortized cost new mortgage expenses	(3)
Adjustment IAS 37 – contractual renewal provision	2,149
First Time Adoption reserve	**2,320**

The following is a commentary on the main IAS/IFRS adjustments relating to the values in accordance with the Italian Accounting Standards:

- **IAS 38 - Reversal of long-term costs**: Intangible assets that do not meet the requirements of IAS 38, differently from the Italian Accounting Standards, are recognized in the income statement when incurred. As a result of the transition to IAS/IFRS, costs capitalized in previous years relating to start-up and expansion costs were derecognized.

- **IAS 38 - Accreditation with indefinite useful life**: Since accreditation is considered an intangible asset with indefinite useful life, IAS 38 states that it must not be amortized but annually subjected to an impairment test. It is noted that there were no effects with regard to goodwill in Shareholders' Equity at the date of First Time Adoption, but the reversal of the portion of amortization in Equity at January 1st, 2015 was recorded.

- **IAS 40 - Depreciation:** In accordance with the provisions of IAS 40, depreciation starts when the asset is available for use and ends when the asset is eliminated from accounting with derecognition. According to the provisions of IAS 40, it does not end with its withdrawal from use or with the destination for subsequent sale, continuing until the moment when the asset is not effectively sold or disposed of. For this reason, the fair value was determined at the opening date of January 1st, 2015 and coincided with the net book value determined according to the national accounting standards, and the relative depreciation amount was calculated.

- **IAS 17 - Leasing**: At the beginning of the lease term, the Group recognizes financial lease transactions as assets and liabilities in the balance sheet at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The discount rate used is the implicit interest rate of the lease contract. Lease payments are divided between financial costs and reduction of residual debt. Financial costs are spread over the years during the lease in order to obtain a constant periodic interest rate on the residual liability. In compliance with IAS 17, the depreciation portion of depreciable assets and financial expenses for each year are recognized in each year. The depreciation criterion used for depreciable assets leased is calculated in accordance with the provisions of IAS 16 and IAS 38. At the date of First Time Adoption, the Group recognized in its balance sheet the assets subject to finance leases according to the provisions of IAS 17.

- **IFRS 9 Derivative instruments and financial liabilities at amortized cost:** At the date of FTA, the Group assessed the derivative financial instruments at fair value, as more fully described in Note 21. At the transition date, the Group recorded financial liabilities at amortized cost, calculated according to the effective interest method, including the transaction costs incurred (essentially identifiable in the up-front fees on medium/long-term loans with the bank institutions).

At December 31, 2017, the item Other reserves amounted to Euro 82,685 thousand showing a net increase of Euro 11,747 thousand compared to December 31, 2016, mainly due to the combined effect of: i) capital increase subscribed by former shareholders of Casa di Cura Villa Garda for a total amount of Euro 7,494 thousand (of which Euro 1,249 thousand attributable to minorities); reference is made to the statement of changes in consolidated equity for the years ended December 31, 2017, 2016 and 2015; ii) change in the IAS 19 actuarial effects reserve of Euro 93 thousand; iii) allocation of the result for the year for Euro 5,471 thousand.

At December 31, 2016, the item Other reserves amounted to Euro 70,938 thousand showing a net increase of Euro 3,990 thousand compared to December 31, 2015, deriving mainly from the combined effect of: i) disbursement of the dividend of Garofalo Health Care S.p.A. for an amount equal to Euro 2 million; ii) change in the IAS 19 actuarial effects reserve of Euro 621 thousand, iii) allocation of the result for the year of Euro 6,610 thousand.

At December 31, 2015, the item Other reserves amounted to Euro 66,948 thousand, showing a net decrease of Euro 7,095 thousand compared to January 1st, 2015, deriving mainly from the combined effect of: i) capital increase in the subsidiary L'Eremo di Miazzina S.p.A. subscribed by the parent company of the Company, Larama 98 S.p.A. equal to Euro 600 thousand; ii) disbursement of the dividend of Garofalo Health Care S.p.A. for an amount of Euro 7.8 million; iii) disbursement of the dividend of Casa di Cura Villa Berica S.p.A. for an amount of Euro 1 million to the parent company of the Company, Larama 98 S.p.A.; iv) disbursement of the dividend of Hesperia Hospital Modena S.p.A. for an amount of Euro 76 thousand to the shareholder An.Rama (shareholder of GHC); v) change in the IAS 19 actuarial effects reserve of Euro 1,172 thousand.

Note 17 Employee benefits

This item includes post-employment benefits valued using the actuarial valuation method of the unit projection of the receivable carried out by independent actuaries in accordance with IAS 19 - Employee benefits.

The main demographic assumptions used by the actuary for the entire three-year period are as follows:

- for the probability of death determined by the General State Accounting called RG48, broken down by gender;
- for the period of retirement for the generic asset, it was assumed that the first of the retirement requirements valid for the Obligatory General Insurance will be reached;

- for the probability of leaving work due to causes other than death, an annual frequency of 9,36% was considered;
- for the probability of anticipation, a year-on-year value of 2% was assumed with a maximum repeatability of two times;
- for the percentage of anticipation requested 100.00%.
- the discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings or above.

The main economic-financial assumptions used by the actuary are:

	At December 31,		
	2017	**2016**	**2015**
Annual inflation rate	1.25%	1.25%	1.50%
Annual real rate of remuneration by categories:			
Executives	2.60%	2.60%	2.60%
Managers	1.70%	1.70%	1.70%
White collars	1.40%	1.40%	1.40%
Annual TFR increase rate	2.02%	2.02%	2.18%

The changes in the years were as follows (in Euro thousands):

Balance at January 1, 2015	**9,395**
Financial expenses/(income)	(40)
Uses	-
Net actuarial (gains) losses accounted in the year	1,594
Transfers in/(out)	(2,663)
Service costs	76
Balance at December 31, 2015	**8,362**
Financial expenses/(income)	(33)
Uses	–
Net actuarial (gains) losses accounted in the year	(850)
Transfers in/(out)	554
Service costs	74
Balance at December 31, 2016	**8,107**
Financial expenses/(income)	(23)
Uses	-
Net actuarial (gains) losses accounted in the year	50
Transfers in/(out)	692
Service costs	293
Balance at December 31, 2017	**9. 119**

According to the requirements of IAS 19 - Employee benefits, a sensitivity analysis must be carried out as the main actuarial assumptions included in the calculation model vary. The following tables show, in absolute and relative terms, the changes in the liability assessed IAS 19 (DBO) in the hypothesis of a 10% positive or negative change in the revaluation and/or discounting rates. The results obtained in thousands of Euro for the financial years 2017, 2016 and 2015 are summarized in the following tables:

		2017		
			Annual discount rate	
		-10%	***100%***	***10%***
Annual inflation rate	***-10%***	9,131	9,064	8,998
	100%	9,187	**9,119**	9,052
	10%	9,244	9,175	9,108

2016

		Annual discount rate		
		-10%	*100%*	*10%*
Annual inflation rate	***-10%***	8,117	8,062	8,007
	100%	8,163	**8,107**	8,051
	10%	8,209	8,152	8,096

		2015		
		Annual discount rate		
		-10%	*100%*	*10%*
Annual inflation rate	***-10%***	8,385	8,308	8,233
	100%	8,440	**8,362**	8,285
	10%	8,494	8,415	8,338

Note 18 Provisions

The item "Provisions" at December 31, 2017, 2016 and 2015 amounted to Euro 8,397 thousand, Euro 7,157 thousand and Euro 6,470 thousand respectively and mainly includes the healthcare dispute risks provision.

The table below shows the "Provisions" at December 31, 2017 compared with the statement at December 31, 2016 and December 31, 2015:

	At December 31,			Change	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
	In Euro thousands				
Provisions for term-end indemnity provisions	94	70	53	24	17
Provisions for healthcare dispute risks provision	6,750	5,941	4,914	809	1,027
Provisions for other provisions	1,553	1,146	1,503	407	(357)
Total provisions	**8,397**	**7,157**	**6,470**	**1,240**	**687**

The item includes the end-of-term mandate of Directors for a total of Euro 94 thousand at December 31, 2017, Euro 70 thousand at December 31, 2016 and Euro 53 thousand at December 31, 2015, and includes allocations for the year 2017 for the companies Rugani Hospital S.r.l. equal to Euro 20 thousand, C.M.S.R. Veneto Medica S.r.l. for Euro 59 thousand and Casa di Cura Prof. Nobili S.p.A. for Euro 15 thousand. The change compared to the previous year of Euro 24 thousand is attributable to the change in the scope of consolidation of Casa di Cura Nobili S.p.A. for Euro 15 thousand, and to the increase recorded in the company C.M.S.R. Veneto Medica S.r.l. for Euro 9 thousand.

Healthcare dispute risks provisions amounting to Euro 6,750 thousand at December 31, 2017, equal to Euro 5,941 thousand at December 31, 2016 and equal to Euro 4,914 thousand at December 31, 2015, include liabilities deemed probable, in the face of claims for damages made by the patients of the structures, in the exercise of the healthcare activity both as affiliation and private. The allocation is the result of a detailed analysis of claims for damages both judicial and extra-judicial and also takes into account events that occurred at the reporting date even if not declared for which the company supported by the opinion of its lawyers has decided to record in its financial statements. The item increased in 2017 by Euro 809 thousand, in 2016 by Euro 1,027 thousand following the occurrence of new events or the worsening of positions present in previous years.

The item other provision for risks at December 31, 2017 is equal to Euro 1,553 thousand, at December 31, 2016 Euro 1,146 thousand and at December 31, 2015 Euro 1,503 thousand. At December 31, 2015, the item mainly includes: (i) allocations to the provision for risks and charges of the company Hesperia Hospital Modena S.p.A. attributable to outstanding disputes with former employees for a total amount of Euro 451 thousand for the 2017 financial year; the item changed in 2017 following the allocation of an amount of Euro 215 thousand; (ii) to the contractual risks ASL/USL/USLL of the companies Casa di Cura Villa Berica S.p.A., equal to Euro 659 thousand (decreased compared to the previous year by Euro 120 thousand) and the entry into the scope of consolidation of Casa di Cura Prof. Nobili S.p.A. in 2017, which presents an allocation of Euro 312 thousand, allocated for requests for budget overruns on healthcare services as affiliation rendered and collected, for which there is a high probability that the structures will have to repay these amounts; (iii) to the risks deriving from the inspection carried out in 2012, by the Labour Inspectorate at Rugani Hospital S.r.l., which contested the use in the form of self-employment services of the nursing staff, referring this service to the scope of employment, for an amount of Euro 103 thousand.

The changes in “Provisions” for the three-year period of reference are shown below:

	Amounts in thousands
Provisions at January 1, 2015	**5,784**
Allocations	2,041
Uses / Reversal	(1,355)
Provisions at December 31, 2015	**6,470**
Allocations	1,406
Uses / Reversal	(719)
Provisions at December 31, 2016	**7,157**
Allocations	1,924
Uses / Reversal	-
Provisions at December 31, 2017	**8,397**

At December 31, 2017, allocations amounted to Euro 1,924 thousand and refer to: (i) allocations for the period for the term-end indemnity of Directors for Euro 24 thousand; (ii) allocations to the healthcare dispute risks provision for Euro 809 thousand; and lastly (iii) allocations to other provisions for Euro 1,091 thousand.

At December 31, 2016, allocations amounted to Euro 1,406 thousand and refer to: (i) allocations for the period for the term-end indemnity of Directors for Euro 36 thousand; (ii) allocations to the healthcare dispute risks provision for Euro 1,370 thousand. With reference to the use of Euro 719 thousand recorded in 2016, it is noted that it is mainly linked to the conciliation agreement reached with a former employee of the Casa di Cura Villa Berica S.p.A. structure for an amount of Euro 590 thousand.

At December 31, 2015, allocations amounted to Euro 2,041 thousand and refer to: (i) allocations for the period for the term-end indemnity of Directors for Euro 42 thousand; (ii) allocations to the healthcare dispute risks provision for Euro 1,403 thousand; and lastly (iii) allocations to other provisions for Euro 596 thousand. With reference to the use of Euro 1,355 thousand recorded in 2015, the following is noted: (i) a decrease with reference to Hesperia Hospital Modena S.p.A., following the update of the estimates of the item in question, following the definition of some disputes that led to the release to the income statement amounting to Euro 670 thousand and (ii) a decrease with reference to Casa di Cura Villa Berica S.p.A. for an amount of Euro 234 thousand.

Note 19 Non-current financial liabilities

The item "Non-current financial liabilities" includes medium/long-term variable rate bank loans.

The table below shows the figure relating to the financial payables that the Garofalo Group has outstanding:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Other non-current financial liabilities………………………………..	6,744	7,029	8,645	(285)	(1,616)
Non-current liabilities due **to banks**..	27,758	18,529	21,358	9,229	(2,829)
Total non-current financial liabilities................................	**34,502**	**25,558**	**30,003**	**8,944**	**(4,445)**

The breakdown of the item "Other non-current financial liabilities" at December 31, 2017, compared with the balance at December 31, 2016 and December 31, 2015, is as follows:

	At December 31,		
	2017	2016	2015
	In Euro thousands		
Shareholders' loans……………………………………………………….	6,401	6,459	7,907
Financial lease liabilities…………………………………………………..	343	570	738
Total other non-current financial liabilities......................	**6,744**	**7,029**	**8,645**

Payables to shareholders for loans amounted to Euro 6,401 thousand at December 31 2017, Euro 6,459 thousand at December 31, 2016 and Euro 7,907 thousand at December 31, 2015. The item consists of the financial debt claimed by the Group against Larama 98 S.p.A. interest rate set at the 1-year Euribor rate + 3 basis points effective from January 1st, 2018. The change between the financial year 2017 compared to the previous year is related to liquidity generated by Group used by repayment of the portions of the payable.

The item "payables to leasing companies" refers to the recognition in the financial statements of the residual financial payable of leased assets accounted for using the financial method and relating to the purchase mainly of healthcare equipment. The item amounted to Euro 343 thousand at December 31, 2017, and was down due to the payment of instalments due.
The breakdown of the item Non-current liabilities due to banks amounted to Euro 27,758 thousand at December 31, 2017, Euro 18,529 thousand at December 31, 2016 and Euro 21,358 thousand at December 31, 2015.

The tables below show the loans made by the companies of the Garofalo Health Care Group, relating to the financial years 2017, 2016 and 2015, with evidence of the amounts due within and beyond 12 months:

Description	Annual interest rate	Maturity	Balance at December 31, 2017	Balance at December 31, 2016	Balance at December 31, 2015
	%		*In Euro thousands*		
MPS – Antonveneta..………..	*3.30%*	Apr 10, 2019	591	983	1,371
Carige………………………....	*4.050%*	June 30, 2023	5,913	6,932	8,354
Mortgage Banca Popolare di Novara no. 7054702 ……………	*Euribor 3m base 365*	Dec 31, 2024	748	851	953
Mortgage Banca Popolare di Novara no. 1035660	*Euribor 3m base 365*	Mar 22, 2016	-	-	188

Mortgage Banca Popolare di Novara no. 2902709	*Euribor 3m base 365*	Mar 31, 2018	76	377	-
Mortgage Banca Popolare di Novara no. 03312817	*Euribor 3m base 365*	Mar 31, 2018	152	752	-
Banca di Sondrio - Unsecured mortgage …………………..	*2.075%*	Jan 31, 2022	6,118	7,331	8,495
Biis Loan No. Ro 7496000 ………………………	*Euribor 3m + spread 0,85%*	June 30, 2025	3,786	4,236	4,236
Biis Loan No. Ro 7496001	*Euribor 3m + spread 0,85%*	June 30, 2025	1,329	1,482	1,482
Carige …………………………	*2.00%*	Oct 30, 2019	119	183	245
Mortgage Carige …………………	*2.50%*	June 30, 2015	432		-
Mortgage Carige …………………	*5.30%*	Dec 31, 2031	1,113	-	-
Mortgage S.Paolo ………………	*4.15%*	Dec 31, 2030	5	-	-
Mortgage Carige …………………	*2.850%*	Dec 31, 2025	13,000	-	-
Total …………………………..			**33,382**	**23,127**	**25,324**
Of which:					
Payables to banks non-current portion of loans ………………......			27,758	18,529	21,358
Payables to banks current portion of loans ….			5,624	4,598	3,966

Banca Infrastruttura Innovazione e Sviluppo S.p.A. (now known as Intesa San Paolo S.p.A.) has granted Villa Von Siebenthal S.r.l. two loans, the first of which consisted of Euro 6.7 million and the second Euro 2.5 million, for a total of Euro 9.2 million. The two loans were made with separate loan agreements. The loan agreements provide for: (i) the commitment of the borrowing party to comply with the financial parameter (so-called financial covenant) of maintaining a ratio between the net financial position and gross operating margin lower or equal to 12 to be calculated within 60 days from close; (ii) a c.d. (cross-default) clause between the two contracts to specify that the failure of one implies the right of the bank to accelerate the second contract; (iii) a c.d. (cross-default) clause with respect to the non-fulfillment of any monetary obligation of the borrowing party that is not remediated within the prescribed term.

The calculation of the aforementioned criterion on the financial statements must be approved by Villa Von Siebenthal S.r.l. on an annual basis.

Financial Parameter (Covenant)	**Threshold Value**	**Value Recorded on Last Registration Date (December 31, 2017)**
Net Financial Position / Gross Operating Margin	<12	9.8

For the financial statements at December 31, 2017, 2016, and 2015, the financial parameters (covenants) were in compliance and no negative pledges or events of default were expected.

The increase in the item “Non-current liabilities due to banks” of Euro 9,229 thousand at December 31, 2017 compared to the previous year is due to the loans made by the companies FI.D.ES. Medica S.r.l. and FI.D.ES. Servizi S.c.a.r.l., company acquired in the year by the Garofalo Health Care Group.
The changes in liabilities deriving from financing activities are shown below, in accordance with IAS 7 “Cash Flow Statement”:

	At December 31,							
	2017	**Cash flows**	**Change Fair Value**	**Change in scope of consolidation**	**2016**	**Cash flows**	**Change Fair Value**	**2015**
	In Euro thousands							
Other non-current financial liabilities …………...................	(6,744)	946	-	(661)	(7,029)	1,616	-	(8,645)
Non-current liabilities for derivative …………...................	(11)	-	9	-	(20)	-	3	(23)

Non-current liabilities **to banks** ……..…………………..	(27,758)	(8,497)	-	(732)	(18,529)	2,872	-	(21,3589
Current liabilities **to banks** ….............................	(19,946)	(1,079)	-	(1,851)	(17,016)	(2,009)	-	(15,049)
Other current financial liabilities	(550)	913	-	(31)	(1,432)	(715)	-	(718)
Current financial receivables ……………………….	3	3	-		-	-	-	0
Cash and cash equivalents ..	22,635	3,443	-	-	19,192	3,169	-	16,023
Net financial debt ………………………….	**(32,371)**	**(4,271)**	**9**	**(3,275)**	**(24,834)**	**4,933**	**3**	**(29,770)**

It is noted that the "Cash flows" column indicates the cash flows of the Consolidated Cash Flow statement.

For the fair value level, please refer to the information in Note 40.

Note 20 Other non-current liabilities

The item Other non-current liabilities includes the medium/long-term portion of payables relating to the substitute tax on the redemption of the goodwill value recorded in the financial statements of the company C.M.S.R. Veneto Medica S.r.l., following the merger in 2014; below is the detail:

	At December 31,			Change	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
			In Euro thousands		
Other non-current liabilities	-	-	412	-	(412)
Total other non-current liabilities	**-**	**-**	**412**	**-**	**(412)**

The redemption was made available pursuant to article 176, paragraph 3 ter of Presidential Decree December 22, 1986 no. 917 and will be paid in three annual instalments; the first was paid in 2015 for an amount of Euro 412 thousand (classified in 2015 in other current liabilities), the second was paid in 2016 and is equal to Euro 549 thousand, while the third one in 2017 is equal to Euro 412 thousand.

Note 21 Liabilities for derivative

The item Liabilities for derivative financial instruments amounted to Euro 11 thousand at December 31, 2017, Euro 20 thousand at December 31, 2016 and Euro 23 thousand at December 31, 2015; recording respectively a decrease of Euro 9 thousand and Euro 3 thousand.

	At December 31,			Change	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
			In Euro thousands		
Non-current liabilities for derivative ……………………………	11	20	23	(9)	(3)
Total liabilities for derivative …………………………………	**11**	**20**	**23**	**(9)**	**(3)**

The Group uses derivative financial instruments such as interest rate swaps to hedge the risks deriving from fluctuations in interest rates. These derivative financial instruments are initially recognized at fair value on the date they are stipulated; subsequently, this fair value is periodically re-measured.

The company opted not to account for these instruments using the hedge accounting method.

The rate derivatives are Over The Counter (OTC) instruments, i.e. they are traded bilaterally with market counterparties and the determination of the relative current value is based on valuation techniques that refer to input parameters (such as interest rate curves) observable on the market (level 2 of the fair value hierarchy required by IFRS 7).

With reference to the financial instruments existing at December 31, 2017, the following is reported:

- all financial instruments measured at fair value fall within Level 2 (identical situation in 2016 and 2015);
- in 2017, 2016 and 2015, there were no transfers from Level 1 to Level 2 or vice versa;
- in 2017, 2016 and 2015, there were no transfers from Level 3 to other levels and vice versa.

Derivative financial instruments are valued using interest rates and yield curves as reference at commonly quoted intervals.

Note 22 Trade payables

“Trade payables” are one of the main liabilities of the Garofalo Health Care Group; this item amounted to Euro 19,296 thousand at December 31, 2017, Euro 16,208 thousand at December 31, 2016, and Euro 18,364 thousand at December 31, 2015. The main objective of these liabilities is to finance the Group’s operating activities.

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Payables to Suppliers……………………..	12,519	9,913	11,407	2,606	(1,494)
Payables to Doctors……….………………..	777	575	564	202	11
Payables to others……………………… …	117	35	55	82	(20)
Invoices to be received…………….	6,170	5,828	6,447	342	(619)
Credit notes to be received………….	(287)	(143)	(109)	(144)	(34)
Total trade payables………………	**19,296**	**16,208**	**18,364**	**3,088**	**(2,156)**

In 2017 there was an increase in the item “Trade payables” of Euro 3,161 thousand compared to the previous year mainly due to the increase in “Payables to suppliers”.

The main accounts that make up this item are:

- “Payables to Suppliers”, which amounted to Euro 12,519 thousand at December 31, 2017, Euro 9,913 thousand at December 31, 2016 and Euro 11,407 thousand at December 31, 2015;

- Payables to Doctors, which amounted to Euro 777 thousand at December 31, 2017, Euro 575 thousand at December 31, 2016 and Euro 564 thousand at December 31, 2015;

- Payables for invoices to be received, which amounted to Euro 6,170 thousand at December 31, 2017, Euro 5,828 thousand at December 31, 2016 and Euro 6,447 thousand at December 31, 2015.

Note 23 Current financial liabilities

The following table shows the figures relating to current financial liabilities that the Garofalo Health Care Group has put in place:

	At December 31,		
	2017	2016	2015
	In Euro thousands		
Current liabilities due **banks** ………………………...........................	19,946	17,016	15,049
Total other current financial liabilities. …………………………………….	550	1,432	718
Total current financial liabilities ……………………………	**20,496**	**18,448**	**15,767**

"Current payables to banks" mainly consists of short-term overdrafts and facilities and short-term loans to be repaid during the year.

The composition of the item "Current payables to banks" at December 31, 2017, compared with the balance at December 31, 2016 and December 31, 2015, is as follows:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Short-term portion of loans …………..	5,624	4,598	3,966	1,026	632
Current liabilities ………………………………………………………………..	167	141	148	26	(7)
Advances ……………………………………………………………........	14,155	12,277	10,935	1,878	1,342
Total current liabilities to banks ………………………………………..	**19,946**	**17,016**	**15,049**	**2,930**	**1,967**

The item "Short-term portion of loans" at December 31, 2017 refers to loans with repayments within 12 months of the following companies: Rugani Hospital S.r.l., CMSR Veneto Medica S.r.l., L'Eremo di Miazzina S.p.A., FI.D.ES. Medica S.r.l., FI.D.ES. Servizi S.c.a.r.l..

"Current payables to banks" for advances refers to advances on commercial invoices for the financing of operating activities.

The composition of the item "Current financial liabilities" at December 31, 2017, compared with the balance at December 31, 2016 and December 31, 2015, is as follows:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Shareholders' loans ……………………………………………………………	-	948	-	(948)	948
Due to leasing companies ………………………………………………….	404	411	465	(7)	(54)
Accrued and deferred financial liabilities …………………………………	146	73	253	73	(180)
Total other current financial liabilities	**550**	**1,432**	**718**	**(882)**	**714**

Current financial liabilities at December 31, 2017 amounted to Euro 550 thousand, referable to Euro 404 thousand for payables to leasing companies, and Euro 146 thousand to the item accrued and deferred financial liabilities. The decrease compared to 2016, equal to Euro 882 thousand, relates to (i) repayment of the capital portions of the loan granted in 2016 to the subsidiaries; (ii) the increase mainly due to the related mortgage instalments, but not yet settled at the closing date of the financial statements.

At December 31, 2016, there were current financial liabilities of Garofalo Health Care S.p.A., equal to Euro 948 thousand to the parent company, which were repaid in 2017, payables to leasing companies for Euro 411 thousand and accrued and deferred financial liabilities for Euro 73 thousand.

At December 31, 2015, payables to leasing companies for Euro 465 thousand and accrued and deferred financial liabilities for Euro 253 thousand were recorded, mainly attributable to the related mortgage instalments, but not yet settled at the closing date of the financial statements.

Note 24 Tax payables

The item tax payables includes payables relating to IRES, IRAP, tax consolidation, and other current taxes. The breakdown is as follows:

	At December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Tax payables IRES	347	62	137	285	(75)
Tax payables IRAP	281	34	41	247	(7)
Payable for tax consolidation scheme	3,280	2,352	2,127	928	225
Total tax payables	**3,908**	**2,448**	**2,305**	**1,460**	**143**

Tax payables went from Euro 3,908 thousand at December 31, 2017, to Euro 2,448 thousand at December 31, 2016 and Euro 2,305 thousand at December 31, 2015.

Tax payables (IRES) at December 31, 2017 amounted to Euro 347 thousand compared to Euro 62 thousand recorded in 2016 and the item mainly consists of Hesperia Hospital Modena S.p.A., which claims a tax payable (IRES) of Euro 329 thousand; in 2015, the item amounted to Euro 137 thousand.

Tax payables (IRAP) at December 31, 2017 amounted to Euro 281 thousand, up Euro 247 thousand compared to 2016; this amount is attributable to Hesperia Hospital Modena S.p.A., for a value of Euro 173 thousand and to Casa di Cura Villa Berica S.p.A. for a value of Euro 32 thousand.

Payables for tax consolidation scheme at December 31, 2017, amounted to Euro 3,280 thousand, an increase compared to Euro 2,352 thousand recorded at December 31, 2016; this amount is attributable to Hesperia Hospital Modena S.p.A., for a value of Euro 1,194 thousand and Casa di Cura Villa Berica S.p.A. for a value of Euro 2,086 thousand (with an increase of Euro 928 thousand compared to 2016). The item amounted to Euro 2,127 thousand in 2015.

Note 25 Other current liabilities

At December 31, 2017, there were “Other current liabilities” for an amount of Euro 11,496 thousand; the breakdown compared to the amounts at December 31, 2016 and December 31, 2015 follows:

	At 31 December			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Payables to social security institutions	2,194	1,824	1,754	370	70
Payables to the Tax Authorities	103	531	775	(428)	(244)
Payables for withholding taxes	1,722	1,522	1,533	200	(11)

Payables to employees ……………………………….	3,911	3,606	3,391	305	215
Other payables ……………………………..………..	3,089	3,077	1,039	12	2,038
Total other current liabilities ……..……………….	**11,019**	**10,560**	**8,492**	**459**	**2,068**

The main items that make up the total increase in the item “Other current liabilities” at December 31, 2017 are specifically: (i) social security payables, equal to Euro 2,194 thousand (Euro 1,824 thousand in 2016), for which there was an increase of Euro 370 thousand compared to 2016, and Euro 70 thousand between 2016 and the previous year; (ii) payables to employees, equal to Euro 3,911 thousand (Euro 3,606 thousand in 2016) for which there was an increase of Euro 305 thousand in 2017 compared to the previous year and equal to approximately Euro 215 thousand positive change between 2016 and 2015; (iii) other payables, equal to Euro 3,089 thousand (Euro 3,077 thousand at December 31, 2016) for which there was an increase of Euro 12 thousand compared to the figure recorded in the previous year, while the positive change of approximately Euro 2,038 thousand relative to 2016 compared to 2015 is mainly attributable to dividends. The item includes payables for the redemption, for further details, please refer to Note 20 “Other non-current liabilities”.

Note 26 Revenues from services

Revenues from services rendered amounted to Euro 135,373 thousand in the 2017 financial year, an increase of 9.6% (Euro 11,884 thousand) compared to the previous year, while in 2016, the item reports a balance of Euro 123,489 thousand, substantially stable compared to Euro 124,599 thousand in 2015 (decrease of 0.9%). All revenues derive from services provided in Italy.

The table below shows the breakdown of revenues from services for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			**Change**	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
	In Euro thousands				
Hospital services ………………………………………………………..	108,437	103,448	103,705	4,989	(257)
Territorial and social-care services …………………………………	26,936	20,041	20,894	6,895	(853)
Total revenues from services …………………………………….	**135,373**	**123,489**	**124,599**	**11,884**	**(1,110)**

It is clarified that these revenues are accounted for performed services. It is noted that in accordance with IFRS 15, the Group recognizes revenues deriving from the provision of services and sales of goods at the fair value of the amount received or to be received, net of adjustments relating to the overrun of the revenue budgets (established on the basis of maximum expenditure limits acceptable by the Regions for the services provided by private healthcare facilities) related to the services as affiliation, communicated by the Regions to each healthcare facility.

The increase in revenues from services rendered for Euro 11,884 thousand, recorded during the year ended December 31, 2017, is mainly related to:

- the inclusion in the scope of consolidation of clinics: Casa di Cura Prof. Nobili S.p.A., RO. E MAR. S.r.l., Centro di Riabilitazione S.r.l., FI.D.ES. Medica S.r.l., Prora S.r.l., Genia Immobiliare S.r.l., FI.D.ES. Servizi S.c.a.r.l. starting from the financial year 2017, which contributed a total of Euro 8 million in revenues from services, gross of intercompany eliminations;

- the performance of revenues from services rendered by Hesperia Hospital Modena S.p.A. and Casa di Cura Villa Berica S.p.A., which recorded an increase of 6.6% (equal to Euro 3,100 thousand) compared to 2016.

The table below shows the breakdown of revenues from hospital services for the three years 2017, 2016 and 2015:

	For the years ended December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Services related to acute and post-acute …………………	85,800	82,104	83,422	3,696	(1,318)
Outpatient services ………………………....................	22,637	21,344	20,283	1,293	1,061
Total hospital services ……………………………….	**108,437**	**103,448**	**103,705**	**4,989**	**(257)**

Revenues from hospital services amounting to Euro 108,437 thousand in the year ended December 31, 2017 (Euro 103,448 thousand at December 31, 2016) increased by a total of Euro 4,989 thousand, with an impact of 80% of the Group's total service provisions.

Revenues from services relating to acute and post-acute services, amounting to Euro 85,800 thousand, accounted for 63% of total Group services at December 31, 2017 (Euro 82,104 with an impact of 66% at December 31, 2016); the positive change of Euro 3,696 thousand is mainly attributable to: (i) the company Hesperia Hospital Modena S.p.A. which expanded its activities both as affiliation due to new contracts stipulated with the local health authority and with respect to private patients for a total of Euro 2,428 thousand (ii) Casa di Cura Villa Berica S.p.A. for Euro 815 thousand; (iii) entry in the Group of Casa di Cura Prof. Nobili for Euro 543 thousand.

Revenues from outpatient services amounting to Euro 22,637 thousand accounted for 17% of total Group services at December 31, 2017 (Euro 21,344 thousand with an impact of 17% at December 31, 2016); the positive change of Euro 1,293 thousand is mainly related: (i) to Hesperia Hospital Modena S.p.A. for Euro 670 thousand, (ii) to Casa di Cura Villa Berica S.p.A. for Euro 286 thousand (iii) to the acquisition in 2017 of the company Casa di Cura Prof. Nobili S.p.A. for Euro 148 thousand.

Revenues from hospital services amounting to Euro 103,448 thousand in the year ended December 31, 2016 (Euro 103,705 thousand at December 31, 2015) decreased by a total of Euro 257 thousand, with an impact of 83% of the Group's total service provisions.

Revenues from acute and post-acute services, amounting to Euro 82,104 thousand, account for 66% of the Group's total service provision at December 31, 2016 (Euro 83,422 thousand with an impact of 67% at December 31, 2015). The decrease in revenues of Euro 1,318 thousand is mainly due to a decrease in revenues recorded by Hesperia Hospital Modena S.p.A. for Euro 1,849 thousand; in 2016 this effect was mitigated by the positive change relating to Casa di Cura Villa Berica S.p.A. for Euro 691 thousand.

Revenues from outpatient services amounting to Euro 21,344 thousand represent 17% of the Group's total services at December 31, 2016 (Euro 20,283 thousand with an impact of 16% at December 31, 2015); the positive change in revenues for outpatient services, amounting to Euro 1,061 thousand, is attributable to the increase in outpatient activities of Hesperia Hospital Modena S.p.A. and of Rugani Hospital S.r.l.

The table below shows the breakdown of revenues from territorial and social-care services for the three years 2017, 2016 and 2015:

For the years ended December 31,			Change	
2017	2016	2015	2017 vs 2016	2016 vs 2015
In Euro thousands				

Social-care services ………………………………..	14,749	7,770	8,334	6,979	(564)
Territorial outpatient services ……………………………	12,187	12,271	12,560	(84)	(289)
Territorial and social-care services ………………	**26,936**	**20,041**	**20,894**	**6,895**	**(853)**

Revenues from territorial and social-care services amounting to Euro 26,936 thousand for the year ended December 31, 2017 (Euro 20,041 at December 31, 2016) increased by Euro 6,895 thousand, representing 20% of revenues from total services of the Group.

The item social-care services for Euro 14,749 thousand has an impact of 11% of the Group's total services at December 31, 2017 (Euro 7,770 thousand with an impact of 6% at December 31, 2016); the increase in the item mainly refers to the change in the scope of consolidation attributable to the acquisition of the Fides Group in 2017, which impacts pro quota with effect from July 1st, 2017 for Euro 6,876 thousand on revenues for social-care services.

The item territorial outpatient services amounting to Euro 12,187 thousand has an impact of 9% of total Group services at December 31, 2017 (Euro 12,271 thousand with an impact of 10% at December 31, 2016).

Revenues from territorial and social-care services amounting to Euro 20,041 thousand for the year ended December 31, 2016 (Euro 20,894 thousand at December 31, 2015) decreased by Euro 853 thousand, representing 17% of revenues from total services (16% at December 31, 2015).

Revenues from social-care services amounting to Euro 7,770 thousand in the year ended December 31, 2016 (Euro 8,334 thousand at December 31, 2015) representing 6% of total service revenues (7% at December 31, 2015) decreased by Euro 564 thousand essentially due to the negative performance of the company Villa Von Siebenthal S.r.l. for Euro 655 thousand, mitigated by the positive performance of the company L'Eremo di Miazzina for Euro 91 thousand.

Revenues from territorial outpatient services amounting to Euro 12,271 thousand in the year ended December 31, 2016 (Euro 12,560 thousand at December 31, 2015), representing 10%, show a decrease of Euro 289 thousand due to the negative change of the company Centro Medico Palladio S.r.l. for Euro 399 thousand (today company in liquidation), Sanimedica S.r.l. for Euro 125 thousand, mitigated by a positive change of C.M.S.R. Veneto Medica S.r.l. for Euro 235 thousand.

Note 27 Other operating revenues

Other operating revenues amounted to Euro 1,293 thousand in the 2017 financial year, up by Euro 695 thousand compared to the previous year, while in 2016, they amounted to Euro 597 thousand and had decreased by 75.3% compared to Euro 2,418 thousand in 2015.

The table below shows the breakdown of other operating revenues for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
		In Euro thousands			
Other income ………………………………………………………	540	408	1,346	132	(938)
Income for tax incentive …………………………………………	435	-	-	435	-
Extraordinary income ……………………………………………	126	156	1,003	-30	(847)
Gains from disposal of assets …………………………………	116	5	7	111	(2)

	For the years ended December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
			In Euro thousands		
Other	76	28	62	48	(34)
Total other operating revenues	**1,293**	**597**	**2,418**	**696**	**(1,821)**

Other operating revenues of Euro 1,293 thousand for the 2017 financial year, show an increase of Euro 696 thousand compared to 2016, partly attributable to the acquisition of the Fides Group in 2017 and partly to the performance of other operating revenues of Hesperia Hospital Modena S.p.A., which recorded an increase of Euro 794 thousand compared to 2016. It is specified that the item referring to the income for tax incentive, with a balance of Euro 435 thousand, refers for the entire amount to the company Hesperia Hospital Modena S.p.A. in relation to the conduct of research and development activities (Law 9/2014 and Ministerial Decree Mef May 27, 2015).

Other operating income of Euro 597 thousand for the 2016 financial year decreased by 75.3% compared to Euro 2,418 thousand for 2015. The negative performance of this item is mainly attributable to the lower income recorded by the companies Hesperia Hospital Modena S.p.A., Rugani Hospital S.r.l. and Casa di Cura Villa Berica S.p.A in 2016. It is also noted that in 2015, the companies Casa di Cura Villa Berica S.p.A. and Hesperia Hospital Modena S.p.A. recorded contingent assets of Euro 591 thousand and Euro 278 thousand respectively (attributable to suppliers prescribed during the year).

Note 28 Costs for raw and ancillary materials, consumables and goods

Costs for raw and ancillary materials, consumables and goods amounted to Euro 19,459 thousand in the 2017 financial year, down by 3.6% compared to Euro 20,196 thousand in the previous year, while in 2016, they had increased by 3.1% compared to Euro 19,583 thousand for 2015.

The table below shows the breakdown of the item in question for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
			In Euro thousands		
Healthcare items and prostheses	13,656	14,124	14,678	(468)	(554)
Medical and pharmacological material	3,372	3,601	3,090	(229)	511
Material for analysis and hygiene	1,133	1,222	1,055	(89)	167
Other	770	1,081	894	(311)	187
Change in inventories of raw and ancillary materials, consumables and goods	528	168	(134)	360	302
Total raw and ancillary materials and consumables ...	**19,459**	**20,196**	**19,583**	**(737)**	**613**

At December 31, 2017, operating costs amounted to Euro 19,459 thousand: the most significant component of this item is represented by costs incurred for healthcare items and prostheses, equal to Euro 13,656 thousand, decreased by 3.6% from the previous year. The following cost component in terms of impact is related to the purchase of medical and pharmacological material, with a balance of Euro 3,372 thousand (decreased by 11.7% from December 31, 2016). Within the scope of consolidation, the companies that mostly contribute to the balance at the end of the year are Hesperia Hospital Modena S.p.A. (operating costs incurred in 2017 for Euro 11,521 thousand), Rugani Hospital S.r.l. (operating costs incurred in 2017 for Euro 2,679 thousand) and Casa di Cura Villa Berica S.p.A. (operating costs incurred in 2017 for Euro 2,659 thousand). The substantial reduction in operating costs is attributable to a strong and effective efficiency policy implemented by Hesperia Hospital Modena S.p.A., which in 2017 achieved the goal of reducing fixed costs incurred by hospitals, achieving excellent results in terms of increase of the profit margin.

At December 31, 2016, operating costs amounted to Euro 20,196 thousand, mainly consisting of costs for healthcare items and prostheses (Euro 14,124 thousand) and medical and pharmacological material (Euro 3,601 thousand). The increase in the item since December 31, 2015, (+3.1%) is mainly attributable to the higher costs incurred for the supply of blood and blood products, essentially incurred by the company Hesperia Hospital Modena S.p.A.

Note 29 Costs for services

Costs for services amounted to Euro 51,058 thousand in the 2017 financial year, up by 9.5% compared to Euro 46,611 thousand in the previous year, while in 2016, they had increased by 1.6% compared to Euro 45,873 thousand for 2015.

The table below shows the breakdown of these costs for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Medical and nurse services ………………………	30,490	28,634	28,376	1,856	258
Maintenance services on property owned ………………………………	2,323	2,367	2,358	(44)	9
Catering services ……………..	2,136	1,821	1,878	315	(57)
Technical healthcare services ………	1,937	1,673	1,113	264	560
Cleaning services ……………………	1,444	1,277	1,281	167	(4)
Expenses for electricity ………..	1,333	1,294	1,373	39	(79)
Project collaboration (co co co) ……………	1,119	366	362	753	4
Directors' fees ………..	1,052	813	805	239	8
Rent expenses – equipment ………..	1,044	1,070	922	(26)	148
Third-party work (expenses for tests, etc.) …………………………	912	869	1,434	43	(565)
Legal consultancy …………………	775	524	364	251	160
Rental of linen ………………..	531	546	530	(15)	16
Other ………………………………….	5,962	5,357	5,077	605	280
Total costs for services ………….	**51,058**	**46,611**	**45,873**	**4,447**	**738**

At December 31, 2017, Costs for services amounted to Euro 51,058 thousand, an increase of Euro 4,447 thousand (+9.54%) compared to the previous year. The change is mainly due to: (i) the inclusion in the scope of consolidation of the companies belonging to the Fides Medica Group and Casa di Cura Prof. Nobili, which mainly impacted the following items: (a) medical and nursing services for Euro 1,668 thousand; (b) catering services for Euro 315 thousand and, (c) project collaboration Co. Co. Co. for Euro 753 thousand, (ii) the increase recorded in Hesperia Hospital Modena S.p.A. of Euro 427 thousand relating to the bonus due to the new General Manager hired with a co.co.co. contract on May 29, 2017, following the achievement of the results envisaged in the contract, (iii) these effects were partially mitigated by the cost efficiency achieved by Hesperia Hospital Modena S.p.A.

At December 31, 2016, Costs for services were substantially unchanged compared to the previous year (+1.6%), recording a balance of Euro 46,611 thousand, attributable to:

(i) Euro 28,634 thousand due to surgical medical services (impact of 61.43% of the total expense item), mainly relating to Hesperia Hospital Modena S.p.A. for Euro 11,747 thousand and Casa di Cura Villa Berica S.p.A. for Euro 5,551 thousand. The increase compared to the previous year is equal to Euro 258 thousand, equal to 0.91%, mainly due to the increase in costs incurred by Hesperia Hospital Modena S.p.A. for Euro 493 thousand and by Casa di Cura Villa Berica S.p.A. for Euro 295 thousand, partially mitigated by the reduction in costs mostly attributable to Centro Medico Palladio S.r.l. in liquidation for Euro 247 thousand and to Rugani Hospital S.r.l. for Euro 162 thousand.

(ii) Euro 2,367 thousand related to maintenance services (Euro 2,358 thousand at December 31, 2015). The breakdown of the item at December 31 2017 is mainly attributable for Euro 999 thousand to Hesperia Hospital Modena S.p.A., for Euro 434 thousand to C.M.S.R. Veneto Medica S.r.l. and for Euro 369 thousand to Casa di Cura Villa Berica S.p.A..;

(iii) Euro 869 thousand for work by third parties (expenses for exams, etc.) that shows a reduction compared to the previous financial year of Euro 566 thousand (-39.47%) in relation to the reduced operation in the year of Hesperia Hospital Modena S.p.A.

Euro 1,673 thousand for technical healthcare services, which shows an increase over the previous year of Euro 560 thousand (50.31%) mainly due to higher costs incurred by: (i) Rugani Hospital S.r.l. for

Euro 392 thousand and (ii) by CMSR Veneto Medica S.r.l. for Euro 193 thousand and only partially mitigated by the reduction shown by Casa di Cura Villa Berica S.p.A. for Euro 172 thousand.

Note 30 Personnel costs

Personnel costs amounted to Euro 34,651 thousand in the 2017 financial year, up by 5.5% compared to Euro 32,860 thousand in the previous year, while in 2016, there was a decrease of 5% compared to Euro 34,600 thousand for 2015.

The table below shows the breakdown of these costs for the years ended December 31, 2017, 2016 and 2015:

	For the years ended December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
			In Euro thousands		
Wages and salaries …………………………...…………………....	25,263	24,605	24,617	658	(12)
Social security contributions ………………………………………………………	7,238	7,021	7,166	217	(145)
TFR (employee severance indemnity) …………………………………………………………………..	1,995	1,099	2,817	896	(1,718)
Other …………………………………………………………………..	155	135	0	20	135
Total personnel costs ……………………………………..	**34,651**	**32,860**	**34,600**	**1,791**	**(1,740)**

Personnel costs of Euro 34,651 thousand for the financial year 2017 show an increase of Euro 1,791 thousand compared to 2016, essentially attributable for Euro 1,300 thousand to the acquisition of the Fides Group, which took place during the 2017 financial year and which led to a considerable increase in the company staff as a direct result.

Personnel costs, equal to Euro 32,860 thousand for 2016, show a decrease of Euro 1,740 thousand compared to 2015: the decrease in the item is mainly due to lower costs incurred by the companies L'Eremo di Miazzina S.p.A. and Casa di Cura Villa Garda S.p.A..

Note 31 Other operating costs

Other operating costs amounted to Euro 6,616 thousand in the 2017 financial year, down by 12.0% compared to Euro 7,516 thousand in the previous year, while in the year 2016, they were substantially stable compared to the year 2015.

The table below shows the breakdown of these costs for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
			In Euro thousands		
Non-deductible VAT from pro-rata ………………………………………………	5,326	6,147	5,977	(820)	170
Taxes ……………………………………………………………………	627	554	504	73	50

	For the years ended December 31,			Change	
				2017 vs 2016	2016 vs 2015
	2017	2016	2015		
	In Euro thousands				
Other operating expenses ………………………………………………...	224	318	273	(95)	45
Contingent liabilities …………………………………………………	158	258	299	(101)	(41)
Non-deductible expenses …………………………………………………………	87	69	78	18	(9)
Membership fees ………………………………………………………..	70	60	66	11	(6)
Other costs ………………………………………………………………	125	110	230	15	(120)
Total other operating costs ……..…………………………………….	**6,616**	**7,516**	**7,427**	**(899)**	**89**

At December 31, 2017, other operating costs refer for 80.5% to costs incurred by the Group for the non-deductible VAT component, which decreased by 13.4% from 2016. The negative change is due to the decrease in operating costs in the year, linked by direct proportionality to the amount of non-deductible VAT.

At December 31, 2016, other operating costs amounted Euro 7,516 thousand, increased by 1.2% compared to 2015: similarly to the above, the increase in costs per raw materials recorded in 2016 is linked by direct proportionality to the increase in the non-deductible VAT item (+2.8%), which at December 31, 2016 represented 82% of the balance of the item in question.

Note 32 Amortization, depreciation and write-downs

The item Amortization, depreciation and write-downs amounted to Euro 5,920 thousand in the 2017 financial year, up by 3.9% compared to Euro 5,700 thousand in the previous year, while in the year 2016, they were substantially stable compared to the year 2015.

The table below shows the breakdown and changes of this item for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
				2017 vs 2016	2016 vs 2015
	2017	2016	2015		
	In Euro thousands				
Amortization Intangible assets ……………………………………………...	334	295	270	39	25
Depreciation Tangible assets ……………………………………………….	5,380	5,113	5,192	267	(79)
Write-downs ……………………………………………………………….	206	292	137	(86)	155
Total amortization, depreciation and write-downs ………………………………..	**5,920**	**5,700**	**5,599**	**220**	**101**

At December 31, 2017, the item under analysis increased by 3.9%: the change is mainly attributable to the increase in depreciation related to tangible assets, increased by Euro 267 thousand due to the inclusion in the scope of consolidation of the Fides Group companies.

At December 31, 2016, the item amortization, depreciation and write-downs increased by 1.8% from the previous year: the positive change is essentially due to higher write-downs made in 2016 on credit positions within current assets.

For details on the item related to amortization, depreciation and write-downs of trade receivables, reference is made to the statements of tangible and intangible assets and to the statement of the provision for bad debts in the notes to the balance sheet.

Note 33 Allocation to provisions

Allocation to provisions amounted to Euro 1,924 thousand in the 2017 financial year, an increase of 36.8% compared to Euro 1,406 thousand in the previous year, while in 2016, there was a decrease of 31.1% compared to the 2015 financial year.

The table below shows the breakdown and changes of this item for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
				2017 vs 2016	2016 vs 2015
	2017	2016	2015		
	In Euro thousands				
Allocation to the litigation risks provision………...	1,900	1,370	1,999	530	(629)
Other allocations …………………………………………………………………	24	36	42	(12)	(6)
Allocation to provisions …………………………………..	**1,924**	**1,406**	**2,041**	**518**	**(635)**

At December 31, 2017, the litigation risks provision amounted to Euro 1,900 thousand, of which Euro 809 thousand for health expenses, the total increased by 36.7% compared to the previous year. At December 31, 2016, the lawsuits litigation risks provision related to health expenses amounted to Euro 1,370 thousand, Euro 1,999 thousand at December 31, 2015.

Note 34 Financial income

Financial income amounted to Euro 875 thousand in the 2017 financial year, an increase of Euro 800 thousand compared to the previous year, while in 2016, it was Euro 75 thousand compared to Euro 287 thousand in 2015.

The table below shows the breakdown and changes of this item for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
				2017 vs 2016	2016 vs 2015
	2017	2016	2015		
	In Euro thousands				
Interest income …………………………………………………………	777	61	226	716	(165)
Income from derivative instruments ………………………………………	-	13	60	(13)	(47)
Other income ……………………………………………………………..	98	1	1	97	0
Total financial income …………………………………………	**875**	**75**	**287**	**800**	**(212)**

The item shows a balance for the year 2017 of Euro 875 thousand with a significant increase compared to the previous year as a result of the default interest income invoiced by the company L'Eremo di Miazzina S.p.A. and collected and equal to Euro 747 thousand, 85% of the entire item. With reference to the interest income for 2015, approximately Euro 141 thousand of the company Hesperia Hospital Modena S.p.A. is recorded with regards to the company Larama 98 S.p.A. (related party).

Income from derivative instruments for the 2015 and 2016 financial years represents the effect of the accounting performed not with the hedge accounting method, with reference to the instruments present in the company CMSR Veneto Medica S.r.l..

Note 35 Financial expenses

Financial expenses amounted to Euro 930 thousand in the 2017 financial year, an increase of 7.7% compared to Euro 881 thousand in the previous year, while in 2016, there was a decrease of 23.3% compared to the 2015 financial year.

The table below shows the breakdown and changes of this item for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
				2017 vs 2016	2016 vs 2015
	2017	2016	2015		
		In Euro thousands			
Interest expenses on mortgages …………………………………………….	636	544	673	92	(129)
Bank interest expenses ..……………………………………………...	129	147	279	(18)	(132)
Interest expenses on advances ….…………………………………...	70	58	1	12	57
Other interest expenses ………………………………………………….	44	52	32	(8)	20
Financial expenses ………………………..	51	80	151	(29)	(71)
Total financial expenses ………………………………………………...	**930**	**881**	**1,136**	**49**	**(255)**

At December 31, 2017, there were increases of Euro 67 thousand (+7.7%) referring to Interest expenses on mortgages: the increase in the expense component is due to new loans entered into by the Group in 2017 and to pre-existing mortgages by companies acquired by the Fides Group.

At December 31, 2016, the item financial expenses amounted to Euro 881 thousand, mainly consisting of interest expenses on mortgages (Euro 544 thousand) and bank interest expenses (Euro 147 thousand).

At December 31, 2015, the item financial expenses amounted to Euro 1,136 thousand, mainly consisting of interest expenses on mortgages (Euro 673 thousand) and bank interest expenses (Euro 279 thousand).

Note 36 Results of investments valued with the equity method

The table below shows the breakdown and changes of this item for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
				2017 vs 2016	2016 vs 2015
	2017	2016	2015		
		In Euro thousands			
Result of investment valued with the equity method…………………………..	32	-	-	32	
Total ………………………………………..	**32**	**-**	**-**	**32**	**-**

The item for the year ended December 31, 2017, amounting to Euro 32 thousand, pertains to the Group and is realized by Il Fiocco S.c.a.r.l. As previously described, the company became part of the Group starting from the 2017 financial year, with the acquisition of the Fides Group.

Note 37 Income taxes for the year

The table below shows the breakdown and changes of this item for the years ended December 31, 2017, 2016 and 2015.

	For the years ended December 31,			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
	In Euro thousands				
Current taxes ……………………………..	4,085	2,433	3,508	1,652	(1,075)
Prepaid taxes …………………………..	(55)	619	192	(674)	427
Deferred taxes…………………………….	582	536	479	46	57
Income from tax consolidation ……………	-	(348)	(37)	348	(311)
Other …………………………………………..	94	118	172	(24)	(54)
Total income taxes ……………..	**4,706**	**3,358**	**4,314**	**1,348**	**(956)**

In the year ended December 31, 2017, income taxes show a balance of Euro 4,706 thousand, an increase of 40% from the previous year, essentially due to higher current taxes (+68%), due to the increase recorded on the Group business volume.

In the financial year ended December 31, 2016, income taxes decreased by 22.1% compared to 2015: the negative change is due to the decrease in current taxes for Euro 1,075 thousand.

Provided below is the reconciliation between the nominal and effective rate of the Group for the years ended December 31, 2017, 2016 and 2015.

IRES Reconciliation	For the years ended December 31,		
	2017	2016	2015
	In Euro thousands		
Pre-tax profit …………………………………………………..	**17,015**	**8,991**	**11,045**
IRES rate in force ……………………………..............................	24%	27.5%	27.5%
Theoretical tax expense (pre-tax profit * IRES rate) ………………………………………	**4,084**	**2,473**	**3,037**
Income taxes with different IRES rate	(825)	(346)	(335)
Deficit allocation ………………………………………………………	153	151	151
Non-deductible taxes ……………………………………………………..	387	244	657
Amortization goodwill …………………………..........................	(109)	(110)	(110)
Other changes …………………………………………………………..	(50)	160	127
Total taxes in the Income Statement ………………………………..	**3,640**	**2,572**	**3,527**

IRES Reconciliation	For the years ended December 31,		
	2017	2016	2015
Effective tax rate ……..……………..…………………	**21.4%**	**28.6%**	**31.9%**

IRAP Reconciliation	For the years ended December 31,		
	2017	2016	2015
	In Euro thousands		
Pre-tax profit ……………………………………..……	**17,015**	**8,991**	**11,045**
IRAP rate in force …………………....…………………..	3.9%	3.9%	3.9%
Theoretical tax expense (pre-tax profit * IRAP rate) ……………………………..	**664**	**351**	**431**
Other changes …………………………………………………………..	310	359	281
Total IRAP tax …………………………..…………………	**974**	**710**	**712**
Taxable Amount Regions (3.90%)……………………………………………	757	396	487
Taxable Amount Regions (4.82%)……………………………………………	217	314	225
Total taxes in the Income Statement …………………………………	**974**	**710**	**712**
Effective tax rate ……..……………..…………………	**5.7%**	**7.9%**	**6.4%**

Note 38 Profit for the year

The profit for 2017 amounted to Euro 12,309 thousand, compared to Euro 5,633 thousand in 2016 and Euro 6,731 thousand in 2015.

As described in the previous paragraphs, the increase in the result for the year at December 31, 2017 is essentially attributable to the acquisition of the Fides Group, which contributed decisively to the achievement of the profit for the year.

Note 39 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are also calculated by dividing the profit attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Below are the result and information on shares used to calculate basic or diluted earnings or loss per share:

	For the years ended December 31, In Euro thousands		
	2017	2016	2015
Net profit attributable to the owner of the Parent	12,309	5,633	6,731
Number of ordinary shares at the end of the year*	300,000	300,000	300,000
Basic earnings per share (*in Euro*)	41.03	18.78	22.44
Diluted earnings per share (*in Euro*)	41.03	18.78	22.44

There were no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of preparation of the financial statements.

* For the purpose of calculating basic and diluted earnings per share, the share split and the free capital increase, shown below, were considered retroactively as if they had occurred on January 1st, 2015 (first year of presentation), consistent with the provisions of IAS 33, paragraph 28.

Note 40 Fair Value hierarchy

The contractual characteristics and the related fair value at December 31, 2017, 2016 and 2015 of the derivative financial instruments to hedge the interest rate risk are as follows:

Company	Contr.	Type	Borrowing rate	Creditor rate	Start Date	Due date	Cap. Notional (in Euro thousands)	Fair Value (in Euro thousands) 2017	2016	2015
Eremo	Banco Popolare	Interest Rate Swap	0.60%	Euribor 3m	20/04/2015	31/12/2024	1,000	11	20	11
CMSR	Banca Antonveneta	Fix Floater Swap	3.7% if Euribor 3m<4.5% Euribor 3m - 0.10% if Euribor 3m≥4.5%	Euribor 3m	10/01/2007	10/01/2016	4,000	-	-	12
Total								**11**	**20**	**23**

Lastly, it is noted that, pursuant to IFRS 13, the CVA ("Credit Value Adjustment") and DVA ("Debit Value Adjustment") of the existing derivative financial instruments were calculated, noting that the amount in question is not significant for the purpose of recording these effects in these financial statements.

The table below shows the carrying amount of the financial instruments in place (current and non-current loans) shown in the balance sheet, comparing it with its fair value.

Financial liabilities	December 31, 2017		December 31, 2016		December 31, 2015	
	Book value	Fair Value	Book value	Fair Value	Book value	Fair Value
	In Euro thousands					
Loans	33,382	33,086	23,127	23,475	25,324	25,820

Derivatives ………………..	11	11	20	20	23	23
Capital instruments ...	788	788	43	43	42	42
Total …………………	**34,181**	**33,885**	**23,190**	**23,538**	**25,389**	**25,885**

With reference to the above financial liabilities, it is noted that they are valued at the Fair Value Level 2 (for the 2017, 2016 and 2015 financial years).

With reference to Investments properties, reference is made to the details in Note 6.
Management verified that the fair value of the other items approximates the book value as a consequence of the short-term maturities of these instruments.

Fair value - hierarchy

All financial instruments recorded at fair value, or for which information is provided, are classified in the three fair value categories described below, based on the lowest level of significant input for the purposes of determining the fair value as a whole:

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

At the end of each period, the Group determines whether, with regard to financial instruments valued on a recurring basis at fair value, there have been transfers between the hierarchy levels, also evaluating their classification (on the basis of the lowest level of significant input for the purposes of determining the fair value as a whole).

Valuation processes

For measurements on a recurring basis and on a non-recurring basis of the fair value classified in Level 3 of the fair value hierarchy, the Group uses valuation processes to define valuation procedures and principles and to analyze changes in the measurement of fair value from one period to another.
The Group’s method of calculating the fair value and the control of the models used includes a series of controls and other procedures aimed at ensuring that adequate safeguards are in place to ensure their quality and adequacy. Once prepared, the fair value estimates are reviewed and also assessed by the Chief Financial Officer (CFO).
The CFO validates the fair value estimates through the following approaches:
• Comparing prices with observable market prices or other independent sources
• Verifying model calculations
• Evaluating and confirming the input parameters
The CFO also evaluates the calibration of the model as a minimum on an annual basis or when significant events occur on the relevant markets. The CFO is responsible for verifying that the final values of the fair value have been defined in accordance with IFRS and proposes adjustments when necessary.
The evaluation techniques and the specific considerations for the level 3 input data are further explained below.

Valuation techniques and assumptions

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

- The fair value of listed securities and bonds is based on the listed market price at the reporting date. The fair value of unlisted instruments, such as loans from banks or other financial liabilities, obligations under finance leases or other non-current financial liabilities, is estimated through future cash flows discounted at current rates available for debt with similar terms, such as credit risk and remaining maturities. The fair value of the shares is sensitive both to a possible change in expected cash flows and/or the discount rate and to a possible change in growth rates. For the purposes of estimating, management must use unobservable input data that is reported in the following tables. Management regularly evaluates a number of possible alternatives to such significant input data and determines their impact on the total fair value.

- The fair value of unlisted ordinary shares was estimated using the discounted cash flow model (DCF). The assessment requires that management make certain assumptions with respect to the inputs of the model, including expected cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the interval can be reasonably verified and are used in the management estimates of the fair value for these unlisted investments;

- The Group stipulates derivative financial instruments with various counterparties, principally financial institutions with credit ratings attributed. Derivatives measured using valuation techniques with detectable market data mainly consist of swaps on interest rates. The most frequently applied valuation techniques include swap models, which use 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 guaranteed by liquidity, thus eliminating both the counterparty risk and the risk of default by the Group.

Note 41 Commitments, risks and contingent liabilities

41.1 Financial leases and redemption commitments

The Group has entered into financial leases for various health facilities. The following table details the amount of future fees deriving from finance leases and rental contracts and the present value of the payments:

	2017		**2016**		**2015**	
	Minimum payments	**Current value of payments**	**Minimum payments**	**Current value of payments**	**Minimum payments**	**Current value of payments**
	In Euro thousands					
Within one year ………………………..	417	404	259	411	47 4	456
Between 1 and 5 years ……..	351	343	768	570	76 7	705
Beyond 5 years ……………………….	-	-	-	-	-	-
Total minimum payments ……..	768	747	1,027	981	**1,241**	**1,161**
Deducting interest expenses ……….	(21)	-	(46)	-	(80)	-
Current value of lease fees ……………….................	**747**	**747**	**981**	**981**	**1,161**	**1,161**

In determining the present value of the minimum payments due for the lease, the discount rate to be used is the implicit interest rate of the lease, if it is possible to determine it; if this is not possible, the marginal financing rate of the lessee must be used. Any initial direct cost of the lessee is added to the amount recognized as an asset.

41.2 Commitments and guarantees

The commitments and guarantees resulting at December 31, 2017 are described below.

Guarantees in own favour provided by the Group to third parties:

- Commercial surety with indefinite maturity of Euro 40 thousand;
- Mortgage on properties no. 401039 of Euro 8,000 thousand;
- Mortgage on properties as per transaction no. 02399 - 690420329600 with Banca Intesa San Paolo S.p.A. for Euro 19,000 thousand;
- Property mortgage entered into on April 18, 2013 for Euro 130 thousand;
- Consolidated mortgage guarantee valid until December 17, 2030 of Euro 1,000 thousand;
- Mortgage on commercial properties of Euro 790 thousand.

Guarantees provided by third parties in favour of the Group:

- Surety Letter for Euro 9,000 thousand, up to revocation;
- Surety Contract for Euro 155 thousand entered into on January 16, 2018;
- Specific Sureties with Banca Intesa San Paolo S.p.A. as per transaction no. 02399 – 690420329600 of Euro 1,482 thousand and no. 02399 – 690420329601 of Euro 4,236 thousand;
- Surety entered into on August 17, 2017 of Euro 18 thousand with maturity January 31, 2019;
- Surety for security deposits on public contracts of Euro 20 thousand;
- Surety no. 18110970 entered into on September 15, 2015 of Euro 141 thousand;
- Surety Letter valid up to revocation of Euro 260 thousand;
- Surety Letter valid up to revocation of Euro 1,820 thousand;
- Surety Letter valid up to revocation of Euro 13,000 thousand;
- First-request surety for transaction no. 800003144432 entered into on January 30, 2012 of Euro 60 thousand;
- First-request surety for transaction no. 800003330921 entered into on January 8th, 2009 of Euro 67 thousand;
- First-request surety entered into on June 11, 2013 of Euro 30 thousand.

Guarantees provided by the Company in favour of third parties:

- First-request surety entered into on January 21, 2001 of Euro 94 thousand;
- Surety Letter valid up to revocation of Euro 1,950 thousand;
- Surety Letter valid up to revocation of Euro 206 thousand;
- Surety Letter valid up to revocation of Euro 200 thousand;
- Surety Letter valid up to revocation of Euro 80 thousand;
- Surety Letter valid up to revocation of Euro 790 thousand;
- Surety Letter valid up to revocation of Euro 26 thousand;
- Generic surety of Euro 50 thousand;
- Omnibus surety no. 838520 of Euro 150 thousand;
- Mortgage on commercial properties of Euro 4,000 thousand.

The commitments and guarantees resulting at December 31, 2016 are described below.

Guarantees in own favour provided by the Group to third parties:

- Mortgage on properties no. 387613 of Euro 2,795 thousand;
- Mortgage on properties no. 401039 of Euro 8,000 thousand;
- Mortgage on properties as per transaction no. 02399 - 690420329600 with Banca Intesa San Paolo S.p.A. for Euro 19,000 thousand.

Guarantees provided by third parties in favour of the Group:

- Surety Letter for Euro 9,000 thousand, up to revocation;

- Specific Sureties with Banca Intesa San Paolo S.p.A. as per transaction no. 02399 – 690420329600 of Euro 1,482 thousand and no. 02399 – 690420329601 of Euro 4,236 thousand;
- Surety no. 18110970 entered into on September 15, 2015 of Euro 141 thousand.

The commitments and guarantees resulting at December 31, 2015 are described below.

Guarantees in own favour provided by the Group to third parties:

- Mortgage on properties no. 401039 of Euro 8,000 thousand;
- Mortgage on properties as per transaction no. 02399 - 690420329600 with Banca Intesa San Paolo S.p.A. for Euro 19,000 thousand.

Guarantees provided by third parties in favour of the Group:

- Surety Letter for Euro 9,000 thousand, up to revocation;
- Specific Sureties with Banca Intesa San Paolo S.p.A. as per transaction no. 02399 – 690420329600 of Euro 1,482 thousand and no. 02399 – 690420329601 of Euro 4,236 thousand;
- With Chianti Banca Cdf no. 0000536 commercial/cl oro of Euro 139 thousand;
- Surety no. 18110970 entered into on September 15, 2015 of Euro 141 thousand.

41.3 Financial risk management

The financial risks to which the Group and its subsidiaries are exposed as well as the policies and strategies used by the Company and its subsidiaries to manage these risks during the six months ended June 30, 2018 and for the financial years ended December 31, 2017, 2016 and 2015 are described below.

It is also noted that there are no changes in direction regarding the risk management methods described below.

GHC and its subsidiaries are exposed to financial risks related to its activities, particularly related to the following:

• Credit risk, resulting from commercial transactions or financing activities;

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

• Market risk, in detail:

a) Operational risk related to the performance of the business;

b) Foreign exchange risk, related to operations in currency areas other than those in the related currency;

c) Interest rate risk, related to the exposure of the Company to financial instruments that generate interest;

d) Price risk, due to changes in the price of commodities.

The system for the management and monitoring of the main risks involves the CEO and the Management of the Group, the Directors and the Boards of Directors of the consolidated companies as well as the company personnel.

The risk management aims above all at protecting the stakeholders (shareholders, employees, customers, suppliers) in safeguarding the company's assets, as well as respect for the environment.

The risk management policy to which the Group is subject is managed by means of:

- the definition at central level of guidelines on which operational management must be inspired regarding market, liquidity and cash flow risk;
- monitoring of the results achieved.

The main risk categories to which the Group is exposed are described below:

41.3.1 Credit risk

Credit risk is the risk that a counterparty does not fulfil its obligations related to a financial instrument or a commercial contract, thus leading to a financial loss.

The maximum exposure to credit risk for the Group at December 31, 2017, 2016 and 2015 is represented by the book value of the assets shown in the financial statements in trade receivables.

The receivables claimed by the company concern almost all public healthcare facilities (hospitals and/or healthcare companies) for which no particular risk of insolvency is deemed to be recorded, except for requests for spending review and regression.

The commercial credit risk is managed by each legal entity according to the policy established by the Group.

Below is the information on the commercial past due positions net of the provision for bad debts, relating to the years ended December 31, 2017, 2016 and 2015:

	At December 31,		
	2017	**2016**	**2015**
Description	*In Euro thousands*		
Due	9,512	7,136	7,864
Past due 0 - 90 days	22,660	21,718	22,352
Past due 90 - 180 days	1,006	3,958	2,084
Past due 180 - 360 days	600	418	220
Past due over 360 days	4,621	2,893	4,954
Total trade receivables	**38,399**	**36,123**	**37,474**

Below is the information on the commercial past due positions gross of the provision for bad debts, relating to the years ended December 31, 2017, 2016 and 2015:

	At December 31,		
	2017	**2016**	**2015**
Description	*In Euro thousands*		
Due	9,637	7,216	7,933
Past due 0 - 90 days	22,782	21,794	22,802

Past due 90 - 180 days	1,028	3,981	2,126
Past due 180 - 360 days	664	428	224
Past due over 360 days	7,156	4,787	8,037
Total	**41,267**	**38,206**	**41,122**
Provision for bad debts	(2,868)	(2,083)	(3,648)
Total trade receivables	**38,399**	**36,123**	**37,474**

The risk of insolvency is controlled locally by the management centres of the subsidiaries that monitor the collections of trade receivables. The Group's Administrative Department monitors the overall level of risk and constantly checks the overall credit exposure. The level of risk associated with this item is considered to be low.

The operational management of this risk is regulated as follows:

• assessment of customer credit standing, taking into account creditworthiness;

• monitoring of the relative expected collection flows;

• appropriate reminder actions;

• any recovery actions.

41.3.2 Liquidity risk

Liquidity risk is associated with the ability to meet the commitments deriving from the financial liabilities. Prudent management of the liquidity risk originated from normal operations requires the maintenance of an adequate level of cash or cash equivalents and the availability of funds through an adequate amount of credit facilities.

The liquidity risk is managed by the individual legal entities and is monitored centrally by the Group as the Administrative Department periodically monitors the Group's financial position through the preparation of appropriate reports of inflows and outflows, both forecast and final. This way, the Group aims to ensure adequate coverage of needs, carefully monitoring loans, and open lines of credit and related uses in order to optimize resources and manage any temporary liquidity exceedance.

The Group's objective is to create a financial structure that, in line with the business objectives, guarantees an adequate level of liquidity, minimizing the related opportunity cost and maintaining balance in terms of duration and debt composition.

The Group can count on the continuous support of the banking system, thanks to the composition of its customer portfolio (public healthcare facilities).

As part of this type of risk, in the composition of the net financial position, the Group tends to finance investments with medium/long-term payables while meeting current commitments both with the cash-flow generated by management and using short-term credit lines.

The following is the stratification of the Liabilities in place with reference to the financial years 2017, 2016 and 2015 referring to financial instruments and trade payables by residual duration:

At December 31, 2017			
Financial payables	**Trade payables**	**Liabilities for derivative instruments**	**Total**
	In Euro thousands		

Maturity:				
Within 12 months ……………………	20,496	19,296	-	**39,792**
Between 1 and 5 years……………..	31,314	-	-	**31,314**
Over 5 years ………………………..	3,188	-	11	**3,199**
Total …………………………………	**54,998**	**19,296**	**11**	**74,305**

	At December 31, 2016			
	Financial payables	**Trade payables**	**Liabilities for derivative instruments**	**Total**
	In Euro thousands			
Maturity:				
Within 12 months ……………………..	18,448	16,208	-	**34,656**
Between 1 and 5 years……………..	20,548	-	-	**20,548**
Over 5 years …………………………..	5,010	-	20	**5,030**
Total …………………………………	**44,006**	**16,208**	**20**	**60,234**

	At December 31, 2015			
	Financial payables	**Trade payables**	**Liabilities for derivative instruments**	**Total**
	In Euro thousands			
Maturity:				
Within 12 months……………………	15,767	18,364	-	**34,131**
Between 1 and 5 years…………….	22,218	-	-	22,218
Over 5 years ……………………….	7,785	-	23	**7,808**
Total …………………………………	**45,770**	**18,364**	**23**	**64,157**

The management of financial risks is carried out on the basis of guidelines defined by the Directors of the subsidiaries; the objective is to guarantee a liability structure always in equilibrium with the composition of equity assets in order to maintain an adequate solvency of equity.

At the same time, the Group is exposed to market rate risk (interest rate), liquidity risk and credit risk.

The Group also aims to maintain an optimal capital structure in order to reduce the cost of debt. The Group monitors the maintenance of capital on the basis of the ratio between Net Financial Position (NFP) and Net Invested Capital (NIC). Net Debt is calculated as total indebtedness, including current and non-current loans and net bank exposure. Net invested capital is calculated as the sum of investments and net working capital (equity and payable relating to NFP are excluded).

41.3.3 Market risk

The global economic crisis also characterized the years 2017, 2016 and 2015, even if in this context, the Group companies did not appear particularly exposed to the negative market fluctuations.

However, as a consequence of the progressive worsening of public accounts, the Central Administration issued, during the financial year 2012, urgent economic measures related to the containment of public spending known as “spending review”.

As a result of this, the Group found itself having to face the economic impact of these measures which actually resulted in a forced reduction of revenues, related to the application of “spending review” discounts containing the costs associated with them.

The Group’s main objective is to manage the risk within certain limits, in order to safeguard the achievement of company objectives. The Group operates mainly with public healthcare facilities in the place where the nursing home operates; this context means that the economic trend strongly depends on the healthcare policies of the region to which it belongs.

In fact, the healthcare legislation is delegated at the central level to the regulatory autonomy of each Region, which on the basis of the "National Healthcare Plan", adopted by the Government, on the proposal of the Ministry of Health, draws up the "Regional Health Plan", which represents the strategic plan of interventions for health objectives and the functioning of services to satisfy the regional population.

Precisely because of the particularity of its customers and the regulatory framework subject to rapid changes, the context is particularly complex and highly dependent on public healthcare structures and the Region of reference.

41.3.4 Currency risk

The Group's current operations are not currently exposed to the risk of exchange rate fluctuations, as the Group performs its business almost exclusively in Euro.

41.3.5 Interest rate risk

The interest rate risk to which the Group is exposed derives, in addition to the payable for short-term credit facilities to which all companies refer, to the medium/long-term debt stipulated by some companies such as Rugani Hospital S.r.l., L'Eremo di Miazzina S.p.A., CMSR Veneto Medica S.r.l., Villa Von Siebenthal S.r.l. and the Fides Group.

Loan		**At December 31, 2015**	
	Interest	**Interest +1%**	**Interest -0.25%**
MPS - Antonveneta………………………………..	16	34	11
Carige……………………………………………........	400	489	378
Mortgage Banca Popolare di Novara no. 03312817 ..	-	-	-
Mortgage Banca Popolare di Novara no. 2902709 …	-	-	-
Mortgage Banca Popolare di Novara no. 7054502 …	13	24	11
Mortgage Banca Popolare di Novara no. 1035660 …	4	7	3
Banca di Sondrio………………………………….	180	180	180
Biis Loan No. Ro 7496001 …………….	16	32	12
Biis Loan No. Ro 7496000 ……………..	44	91	33
Carige ……………………………………………..	-	1	-
Totale	**673**	**858**	**629**

Loan		**At December 31, 2016**	
	Interest	**Interest +1%**	**Interest -0.25%**

MPS - Antonveneta……………………………….	10	24	6
Carige……………………………………………......	314	393	294
Mortgage Banca Popolare di Novara no. 03312817 ..	2	5	2
Mortgage Banca Popolare di Novara no. 2902709 …	6	11	5
Mortgage Banca Popolare di Novara no. 7054502 …	10	20	8
Mortgage Banca Popolare di Novara no. 1035660 …	1	1	0
Banca di Sondrio ……………………...………..	157	157	157
Biis Loan No. Ro 7496001 …………….	11	26	7
Biis Loan No. Ro 7496000 ……………..	31	73	21
Carige ……………………………………………..	4	6	4
Totale	**544**	**715**	**504**

Loan		**At December 31, 2017**	
	Interest	**Interest +1%**	**Interest -0.25%**
Carige…………………………………………………	6	11	5
MPS - Antonveneta ……...…………………………..	8	16	3
Carige ……………………………………...…………	231	307	222
Mortgage Banca Popolare di Novara no. 03312817 …..	4	11	3
Mortgage Banca Popolare di Novara no. 2902709 …....	4	7	3
Mortgage Banca Popolare di Novara no. 7054502 …....	8	17	6
Mortgage Banca Popolare di Novara no. 1035660 …....	-	-	-
Banca di Sondrio ……………………………..........	112	112	112
Biis Loan No. Ro 7496001 ………………..	11	26	7
Biis Loan No. Ro 7496000 ………………...	31	73	21
Carige ……………………………………………….	3	4	2
Carige ……………………..............................	6	18	3
Intesa San Paolo …………………………………….	1	1	1
Carige ……………………………………...…………	211	285	211
Totale	**636**	**888**	**599**

The objective of the management of interest rate risk is to limit and stabilize the flows payable due to interest paid mainly on medium-term payables so as to have a close correlation between the underlying and the hedging instrument.

The hedging activity is assessed and eventually decided on a case-by-case basis; the Group does not have derivative interests to hedge rates.

The management of exchange rate and interest rate risk is carried out by the treasury department of the companies belonging to the Group.

41.3.6 Price risk

The Company is not currently exposed, if not in an irrelevant manner, to price risk associated with commodities.

Furthermore, the costs of healthcare materials are generally subject to fluctuations and other factors outside the control of the Group. Generally, the Group manages such fluctuations through an increase in the prices of its services to the private sector and beyond the control of the Group, is the increase in the prices of the fees recognized for services in affiliation. However, analyzing the historical data, a fluctuation of the costs of sanitary material is always followed by an adjustment of the fees recognized for the services in affiliation. The Company has not adopted instruments to hedge the risk of fluctuations in the cost of these components, but has strong contractual power with respect to its suppliers by acting with a single purchasing centre.

41.4 Legal disputes and contingent liabilities

Claims for damages

Starting from March 2010, the Group has suspended insurance coverage for some 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., Casa di Cura Villa Garda S.p.A.), and therefore received from this date claims for damages related to the operational activity of the structures.

At December 31, 2017, the Company, on the basis of the assessments of its lawyers, classified these claims for compensation as follows: (i) risk of probable loss for 88 requests corresponding to a petitum of Euro 11.9 million; (ii) the possible risk of losing the case for 8 claims for damages, of which 5 for a petitum of Euro 0.3 million, and 3 that cannot be determined; (iii) the remote risk of losing for 90 requests, of which 75 not quantifiable, and 15 that present a petitum of Euro 1.8 million. A provision for risks of Euro 6.8 million was set aside at December 31, 2017 for requests valued with probable risk of losing.

Administrative disputes

The company Rugani Hospital S.r.l. has ongoing proceedings in Appeal - Court of Appeal of Florence against sentence no. 234/2017 filed December 27, 2017 issued inter partes by the Court of Siena - Labour Section in the context of the judgement no. 264/2016 RG regarding the definition of the type of employment relationship of some workers. The risk, after consulting its legal advisors, is quantified as probable and is therefore allocated to other provisions for Euro 103 thousand.

The company Hesperia Hospital Modena S.p.A. has ongoing appeal proceedings against sentence no. 487/17 of the Court of Modena - Labour Section regarding a dispute initiated by a former employee for alleged illegitimacy of the dismissal of the latter. The risk, after consulting its legal advisors, is quantified as probable and is therefore allocated to other provisions for Euro 451 thousand.

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

- a proceeding against SIFIN S.r.l.. The dispute originates from the factoring contract concerning the non-recourse transfer of the receivables claimed by Villa Von Siebenthal S.r.l. with respect to the national and regional healthcare system. As part of the aforementioned relation, Sifin

S.r.l. summoned Villa Von Siebenthal S.r.l. before the Civil Court of Rome for payment of Euro 220 thousand. With appearance of constitution and reply of June 20, 2009, Villa Von Siebenthal S.r.l. appeared before the court requesting the rejection of the requests made by Sifin S.r.l. and also filing a counter-claim for the declaration of nullity of the signed contract and reimbursement of the amount paid to the factor as interest and fees, also challenging the manner in which Sifin S.r.l. renounced the interest accrued with respect to the Lazio Region. With non-definitive sentence no. 6850/2014, filed on March 25, 2014, the Judge dismissed the case on the role, "for the purpose of determining the exact credit/debit relation between the parties, providing expert technical office (CTU). In the expert report filed, the CTU concluded on the differences due from Villa Von Siebenthal S.r.l. to Sifin S.r.l. and those due from Sifin S.r.l. to Villa Von Siebenthal S.r.l.. At the outcome of the hearing to clarify the conclusions held on July 6th, 2016, with final sentence no. 2670/2017, filed on February 10, 2017, the Judge sentenced Sifin S.r.l. to the payment in favour of Villa Von Siebenthal S.r.l. for the amount of Euro 138 thousand, plus legal interest from the request, legal expenses and accessories.
Against the aforementioned sentences, Sifin S.r.l. interposed before the Court of Appeal of Rome:

- appeal against the non-definitive sentence no. 6850/2014. The proceeding was registered in n.r.g. 3098/2015. With appearance of constitution and reply of September 24, 2015, Villa Von Siebenthal S.r.l. appeared before the court requesting the rejection of the claims made by Sifin and also proceeding with an incidental appeal.
- appeal against the definitive sentence no. 2670/2017. The proceeding was registered in n.r.g. 3212/2017. With appearance of constitution and reply of July 25, 2017, Villa Von Siebenthal S.r.l. appeared before the court requesting the rejection of the claims made by Sifin S.r.l. and also proceeding with an incidental appeal.
- appeal for conservative seizure in the course of the lawsuit pursuant to articles 669 quater and 671 of the Code of Civil Procedure requesting the seizure of all sums present on the current accounts held by Villa Von Siebenthal S.r.l. of the receivables claimed by the same and of any other movable and/or immovable property up to the amount of Euro 161 thousand. By Order of February 12, 2018, the Court of Appeal of Rome rejected the appeal made by Sifin S.r.l..

  The risk, upon the opinion of its lawyers, is quantified as "possible/remote" and no liabilities have been recorded in the financial statements for these proceedings, also due to the fact of the creditor positions of Villa Von Siebenthal S.r.l. with respect to Sifin S.r.l..

- A social security dispute; the company received from the regional management INPS Lazio a request for documents for inspections regarding the relation between the supplier company Futura soc. coop. and Villa Von Siebenthal S.r.l. with reference to the service contract between the two companies. With reference to the inspection access, Villa Von Siebenthal S.r.l. received on April 4th, 2017 the Single Verification and Notification Report no. 2016003251/S1 with which, pursuant to the contract with Futura soc. coop., the company is jointly and severally liable to the latter for the payment of obligatory social security contributions for the period between 04/2013 and 11/2015 for a total of Euro 100 thousand. The risk, upon the opinion of its lawyers, is quantified as "possible" and no liabilities have been recorded in the financial statements for these proceedings.

Disputes with ASL/USL/ULSS

With reference to Rugani Hospital S.r.l., the appeal is pending before the Tuscany Regional Administrative Court against the provision of the AUSL Tuscany South East, as the resolutions challenged are illegitimate due to lack of competence, introducing restrictions and ceilings to the volumes of services (high complexity and specialist outpatient services, including outpatient surgery) provided to non-region residents who could only be established by the state legislator or the Tuscany Region. In essence, the AUSL Tuscany South East (with specific reference to its specific area) made a real unilateral modification of the regional regulatory discipline (the one contained in Resolution no. 343 of 2017) which, conversely, constitutes the regulatory assumption outside the provision of healthcare services and which is, therefore, unchangeable for both economic operators and for the local healthcare companies that, in part, operate as instrumental bodies of the SSR, pursuant to articles 19, 29, 72 and 76 of the regional law no. 40 of 2005 and articles 8 quinquies and 8 sexies of Legislative Decree no. 502 of 1992, as well as for the violation and misapplication of the DGR Tuscany no. 343 of 2017, implementing article 15, paragraph 14, DL of 06.07.2012 and article 1, paragraph 574 of the law no. 208 of 28.12.2015, placing itself in clear (and conscious) contrast with the regional regulatory discipline, as unlike the latter, it imposes spending ceilings that involve the provision of hospitalization services of high complexity and specialist outpatient services (even outpatient surgery) in favour of residents in other regions, not provided for in the conventional or regional forecasts. The risk, after consulting its legal advisors, is quantified as probable and therefore allocated to the provision for bad debts for Euro 49 thousand.

The following disputes are pending between L'Eremo di Miazzina S.p.A. and with the counterparty ASL VCO and the Piedmont Region. Below is a brief description of ongoing proceedings:

- L'Eremo summoned ASL VCO against which it claims damages of more than Euro 3.8 million to be attributed to breach of contract. The ASL appeared objecting and challenging the claim for damages and at the same time summoning the Piedmont Region, explaining a counter-claim against L'Eremo di Miazzina S.p.A. for approximately Euro 3,600 thousand due to unauthorized hospitalizations in violation of the DGR 70 of 1995. A CTU has been requested and admitted, which has ruled that there are the conditions of the counter-claim request by the ASL VCO and/or the Region. The case was decided by a sentence dated January 13, 2017, which rejected the damages claim of L'Eremo di Miazzina S.p.A. on the grounds that the facts would be absorbed by the transaction already carried out between the company and the ASL VCO and that, however, as documented there was a transaction related to the hospital and non-assistance part of the budget of L'Eremo di Miazzina S.p.A. In light of the findings of the CTU, the Court rejected the counter-claim of ASL VCO that therefore, if it is not appealed, it will be final.
  An appeal was made to the aforementioned decision and the ASL VCO again filed an incidental appeal.
  In this case, the risk, after consulting its legal advisors, is quantified as possible and therefore no amount is allocated in the financial statements.
- L'Eremo summoned the Piedmont Region in order to obtain the recovery of the receivable deriving from the balance of production in affiliation relating to the 2007/2008 years, in addition to default interest. For this purpose, an ATP was presented and admitted on August 14, 2012 to ascertain the accounting data in contradiction. The accounting report filed on April 14, 2013 set a receivable in favour of L'Eremo for a total of Euro 690 thousand as capital, in addition to Euro 513 thousand for default interest accrued. With sentence no. 216/2016 published on April 26, 2016, the Judge had definitively rejected the opposition proposed by the Piedmont Region confirming the injunction decree against the same and condemning the losing party to pay the costs of litigation. On May 31, 2017, the writ of precept was drafted, and on July 3rd, 2017 the entire amount was collected.
- Appeal of L'Eremo di Miazzina S.p.A. against a resolution of the Regional Council of November 2016 to rewrite the rules of access to accredited healthcare facilities with retroactive contractual effects from January 1st, 2016. The TAR of Piedmont in accepting the precautionary petition filed by the company, on February 8th, 2017, on the grounds of the alleged damage suspended the resolution challenged; subsequently, on January 4th, 2018, the same TAR rejected the appeal filed by L'Eremo di Miazzina S.p.A., which is proceeding with the drafting of the appeal before the Council of State.
  In this case, the risk, after consulting its legal advisors, is quantified as possible and therefore no amount is allocated in the financial statements.
- Dispute between ASL VCO and L'Eremo di Miazzina S.p.A. regarding healthcare production 2014, 2015 and 2016. With its letter of July 14, 2017, the ASL VCO asked the company to issue certain credit notes in relation to the years indicated, objecting an alleged reduction from non-continuity in care. The company challenged this request as it assumes that it has not passed, for patients in Piedmont, the threshold ceiling that gives rise to the reduction, both because said reduction, especially for the years 2014 and 2015 could not be applied to out-of-region patients especially in light of as indicated by the Piedmont Region with D.G.R. of November 2016.

Lastly, also for the year 2016, the company claims, as concerns patients in Piedmont, to have never exceeded the reduction ceiling for non-continuity in care.
In this case, the risk, after consulting its legal advisors, is quantified as probable and therefore allocated to the provision for bad debts for Euro 650 thousand.
Dispute between L'Eremo di Miazzina S.p.A. and the Court of Accounts of Piedmont, which in March 2013 notified an alleged complaint of fiscal damage in relation to the period from 1999 to 2006 alleging a violation of the DGR 70 of 1995. The company filed a defence brief and subsequently the proceeding ended with sentence no. 153 dated July 15, 2015, in which L'Eremo di Miazzina S.p.A. appeared by objecting to the prescription of the alleged fiscal damages that was accepted by the Court. Other structures, convicted, appealed and the prosecutor filed an incidental appeal, also in relation to the company's position, with the reopening of the proceeding.
In this case, the risk, after consulting its legal advisors, is quantified as possible and therefore no amount is allocated in the financial statements.

Note 42 Other Information

42.1 Transactions with related parties

The following tables show the details of the economic and equity relations with related parties. The companies indicated have been identified as related parties because they are directly or indirectly connected to the reference shareholders of the Garofalo Health Care Group.

Pursuant to Consob Resolution no. 17221 of March 12, 2010, it is noted that in 2017, 2016 and 2015, the Group did not conclude transactions of major significance with related parties or transactions that have had a significant impact on the equity balance or the result of the year of the Group.

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

The following table provides the total amount of transactions with related parties in 2015:

2015	Receivables		Payables		Costs		Revenues	
	Fin./Tax	Trade	Fin./Tax	Trade	Fin.	Trade	Fin.	Trade
	In Euro thousands							
Maria Laura Garofalo ………………...	-	-	-	50	-	500	-	-
Raffaele Garofalo SA.PA………..…..	905	-	2,127	-	-	-	37	-
Larama 98 ……………………………..	-	-	8,287	42	-	-	141	-
An.rama ……………………………..…	-	-	20	-	-	-	-	-
Total ……………………………….…	**905**	**-**	**10,434**	**92**	**-**	**500**	**178**	**-**

The following table provides the total amount of transactions with related parties in 2016:

2016	Receivables		Payables		Costs		Revenues	
	Fin./Tax	Trade	Fin./Tax	Trade	Fin.	Trade	Fin.	Trade
	In Euro thousands							
Maria Laura Garofalo …………………	-	-	-	113	-	500	-	-
Mariano Garofalo………………………	-	-	-	30	-	60	-	-
Raffaele Garofalo S.A.P.A ……….	1,151	-	2,352	-	-	-	348	-
Larama 98 …………………………..	-	-	9,331	114	-	49	-	-
An.rama ………………………………..	-	-	76	4	-	-	-	-
Total …………………………………..	**1,151**	**-**	**11,759**	**261**	**-**	**609**	**348**	**-**

The following table provides the total amount of transactions with related parties in 2017:

2017	Receivables		Payables		Costs		Revenues	
	Fin./Tax	Trade	Fin./Tax	Trade	Fin.	Trade	Fin.	Trade
	In Euro thousands							
Maria Laura Garofalo	-	-	-	162	-	609	-	-
Mariano Garofalo...........................	-	-	-	30	-	60	-	-
Claudia Garofalo	-	-	-	2	-	5	-	-
Raffaele Garofalo S.A.P.A	586	-	3,280	6	-	-	-	-
Larama 98	-	-	7,576	105	-	88	-	-
An.rama	2	-	76	4	-	-	-	-
Total	**588**	**-**	**10,932**	**309**	**-**	**762**	**-**	**-**

42.2 Significant events after December 31, 2017

The company has started a listing process which will provide an important opportunity for its development, capable of producing significant advantages, in financial terms as well as in terms of image. The listing of the shares would in fact allow the Company, on the one hand, to find capital suitable to meet its financing needs for the business development plans on the risk market, thus ensuring greater security and financial stability and, on the other hand, it would allow the Company to gain even greater visibility on the reference markets.

42.3 Fees of the Board of Directors and the Board of Statutory Auditors

The accrued fees paid in any capacity and in any form to the members of the Board of Directors at December 31, 2017, 2016 and 2015 by Garofalo Health Care S.p.A. amounted to Euro 1,052 thousand, Euro 813 thousand and Euro 805 thousand respectively.

The accrued fees related to the Board of Statutory Auditors of Garofalo Health Care S.p.A. at December 31, 2017, 2016 and 2015 amounted to Euro 287 thousand, Euro 232 thousand and Euro 221 thousand.

The following table shows the remuneration paid in any way and in any form to the members of the Board of Directors for the year ended December 31, 2017 by Garofalo Health Care S.p.A. and by the companies directly or indirectly controlled by it:

Fees for the office	At December 31, 2017
	In Euro thousands
Directors	1,052

The following table shows the remuneration paid in any way and in any form to the members of the Board of Directors for the year ended December 31, 2016 by Garofalo Health Care S.p.A. and by the companies directly or indirectly controlled by it:

Fees for the office	At December 31, 2016
	In Euro thousands
Directors	813

The following table shows the remuneration paid in any way and in any form to the members of the Board of Directors for the year ended December 31, 2015 by Garofalo Health Care S.p.A. and by the companies directly or indirectly controlled by it:

Fees for the office	At December 31, 2015
	In Euro thousands
Directors	805

42.4 Positions or transactions deriving from atypical and/or unusual operations

In accordance with Consob Communication no. DEM/6064293 of July 28, 2006, it is specified that no atypical and/or unusual transactions were carried out, as defined by the Communication.

Maria Laura Garofalo
Legal Representative

GAROFALO HEALTH CARE GROUP
INDEPENDENT AUDITORS' REPORT

Garofalo Health Care S.p.A.

Consolidated financial statements at December 31, 2017, 2016 and 2015

Independent auditor's report

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Independent auditor's report
(Translation from the original Italian text)

To the Shareholders of
Garofalo Health Care S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Garofalo Health Care Group (the "Group"), which comprise the consolidated statements of financial position at December 31, 2017, 2016 and 2015, and the consolidated statements of income, the consolidated statements of comprehensive income, the statements of changes in consolidated equity and the consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at December 31, 2017, 2016 and 2015, and of the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Garofalo Health Care S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The consolidated financial statements are prepared for the sole purpose of their inclusion in the documentation for the proposed listing of ordinary shares of Garofalo Health Care S.p.A. (the "Company") on the Italian "Mercato Telematico Azionario" managed by Borsa Italiana S.p.A.. As described in "Note 1 Accounting standards of reference and preparation criteria adopted in preparing the Consolidated Financial Statements at December 31, 2017, 2016 and 2015", the consolidated financial statements for the years ended December 31, 2016 and 2015 consolidate the financial statements of the Company and of its subsidiary Hesperia Hospital Modena S.p.A., as well as the financial statements of the entities transferred to the Company in 2016 and 2017; these entities, prior to the transfer to the Company, were controlled by the owners of the Company.

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Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the parent Garofalo Health Care S.p.A. or to cease operations, or have no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events

or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Perugia, August 9, 2018

EY S.p.A.
Signed by: Dante Valobra, partner

This report has been translated into the English language solely for the convenience of international readers.