



Standard Ethics Rating [SER]: **EE-**  
Long Term Expected SER [3y to 5y]: **EE**

**Issuer:** Garofalo Health Care S.p.A.  
**Listing:** Milan Stock Exchange  
**ISIN:** IT0005345233  
**Market Capitalisation:** 417 Bn EUR  
**Sector:** Health Care  
**Industry:** Health Care and Services  
**Type of rating:** Corporate Standard Ethics Rating [SER]  
**Date:** 19 October 2020  
**Expiry Date:** 19 October 2021  
**Last action:** -  
**Previous SER:** -  
**Type of document:** Rating Report

#### Level of Compliance

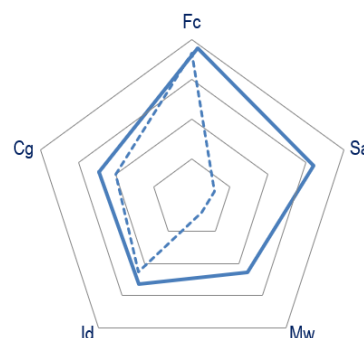
| EEE  | EEE-      | EE+         | EE     | EE-      | E+            | E   | E-       | F            |
|------|-----------|-------------|--------|----------|---------------|-----|----------|--------------|
| Full | Excellent | Very strong | Strong | Adequate | Non-compliant | Low | Very Low | Lowest level |

| Investment Grade | Lower Investment Grade | Non-investment Grade |
|------------------|------------------------|----------------------|
|------------------|------------------------|----------------------|

#### Summary

Garofalo Health Care S.p.A. is active in the field of private accredited healthcare, which in Italy is a highly regulated market with strict laws. Founded in 2000, and developed out of a family business experience, the Company has undergone a process of geographical and sectorial diversification, expanding to various regions throughout Italy. Its governance is characterised by a rather stable and fairly concentrated shareholder base. ESG (Environmental, Social, Governance) policies and reporting are a fairly recent innovation: they appear to be fully consistent with best practices in this sector. The Risk Management system is well conceived and capable of addressing non-financial issues as well. It is highly probable that future sustainability strategies will be fully compliant with the guidelines on ESG matters issued by UN, OECD and EU, and will also refer to them formally. There are future plans along these lines. The Company's long-term outlook is positive.

#### Snapshot (adj.)



Regarding the major areas of assessment, further improvements can be done in some *governance* aspects.

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STANDARD ETHICS LTD  
OFFICE 3.05  
1 KING STREET, LONDON (UK)  
EC2V 8AU - COMPANY NUMBER: 7703682

Published and produced by SE Research Office

Analysis, research, review: C. Polito; J. Schettini Gherardini

External Relations: Filippo Cecchi (Head of Communication and Public Affairs Office)  
Tracey Waters (Communication Manager)

Hub and Corporate Website in [www.standardethics.eu](http://www.standardethics.eu)

For all enquiries, please write to: [headquarters@standardethics.eu](mailto:headquarters@standardethics.eu)

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## BACKGROUND, METHODOLOGY, RATING

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

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

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

The Standard Ethics Rating helps refine the strategies, language and ways in which an issuer operates on the market.

### STANDARD ETHICS

Standard Ethics Ltd (SE) is a Self-Regulated Sustainability Rating Agency<sup>2</sup> that issues Non-Financial Solicited Ratings to companies and sovereign nations.<sup>3</sup> The Standard Ethics® brand has been around since 2004 in the world of “sustainable finance” and ESG (Environmental, Social and Governance) studies.

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

### STANDARD ETHICS RATING

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

- Solicited: it is issued only at the request of an applicant, by means of a direct, bilateral and regulated agreement.
- Standard: it is always comparable to other ratings, as the methodology and issuance parameters are aligned to pre-established guidelines, and the algorithm takes into account the size and typology of the issuer.

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

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

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

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

<sup>2</sup> In the absence of supervisory bodies and international legislative standards for ESG solicited ratings to corporates, Standard Ethics has, since the beginning of its activity, been **self-regulating applying the models of credit rating agencies**. In the main: Standard Ethics' clients are the companies that apply for a rating (Applicant-pay Model); in order to remain third party to investors, Standard Ethics does not provide any individual investor with advice, analysis or data regarding companies under rating; in order to offer uniformity in ratings, Standard Ethics has an ethically neutral approach and uses only UN, OECD and EU sustainability recommendations for reference; Standard Ethics uses a proprietary algorithm-based methodology to provide comparability, accuracy and transparency in its assessments; the disclosure of any rating action is regulated by procedures. The indications from ESMA are taken into account; Standard Ethics uses an "analyst-driven process", does not use artificial intelligence or software either in data analysis or in decision-making; Chinese Walls, procedures, compliance offices and independent committees are part of Standard Ethics' structure.

<sup>3</sup> SE can issue unsolicited ratings to create and maintain national sustainability indices. SE regularly publishes on its website and updates the ratings of listed companies that are components of its indices.

- Independent: in order to remain third party to investors, Standard Ethics does not provide any individual investor with advice, analysis or data regarding companies under rating, it does not use the data gathered for asset.
- management advisory services (to banks or funds) and it does not share it with third parties.

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

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

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

#### SE ANALYSIS UNIT

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

1. MARKET AND COMPETITORS (13 analysis points)
2. MARKET AND DOMINANT POSITIONS (10 analysis points)
3. CONTRACTS, FINANCING AND PUBLIC AID (7 analysis points)
4. MARKET DISTORTIONS, FAVOURITISM & CORRUPTION (8 analysis points)
5. OWNERSHIP, SHARE CAPITAL AND SHAREHOLDERS (8 analysis points)
6. INTERNAL VOLUNTARY RULES ON DIRECTORS (8 analysis points)
7. INDEPENDENCE AND CONFLICTS OF INTEREST (12 analysis points)
8. PROTECTION OF NON-CONTROLLING (MINORITY) SHAREHOLDERS AND APPOINTMENT OF DIRECTORS (7 analysis points)
9. COMMUNICATION, INFORMATION AND TRANSPARENCY (5 analysis points)
10. TRANSPARENCY OF BOARD OF DIRECTORS AND EXECUTIVE GROUPS (9 analysis points)
11. INTERNAL VOLUNTARY RULES ON MANAGEMENT (10 analysis points)
12. DIRECTORS AND CONFLICTS OF INTEREST (13 analysis points)
13. DISCLOSURE AND TRANSPARENCY (22 analysis points)
14. PARTICIPATING AND VOTING IN GENERAL SHAREHOLDERS' MEETINGS (5 analysis points)
15. HIRING POLICIES AND HUMAN RESOURCE MANAGEMENT (11 analysis points)
16. HEALTH AND SAFETY IN THE WORKPLACE (16 analysis points)
17. ADAPTING TO CHANGES (6 analysis points)
18. ENVIRONMENT (17 analysis points)
19. CONSUMERS AND QUALITY (9 analysis points)
20. SCIENCE AND TECHNOLOGY (4 analysis points)
21. LOCAL COMMUNITIES (3 analysis points)
22. BUSINESS PARTNERS (9 analysis points)
23. HUMAN RIGHTS (6 analysis points)
24. EUROPEAN STRATEGIES (2 analysis points)

## RESEARCH OFFICE AND RATING COMMITTEE

The Research Office compiles a Final Report and issues a rating based on its review of the work of the Analysis Unit.

The Rating Committee analyses the conformity of the collected data and the ensuing conclusions and it approves the issued rating.

Chinese Walls between the Analysis Unit, the Research Office, the Rating Committee and all other company offices ensure maximum transparency. A Compliance Officer oversees all steps and processes.

## S.E. ALGORITHM OF SUSTAINABILITY ©

Standard Ethics has developed a **proprietary algorithm** based on five "standards" and a premium variable - "k" - to process the data provided by the Analysis Unit ( $F_{EU}$ ;  $Sa_{EU-OECD}$ ;  $Mw$ ;  $Id_{EU-OECD}$ ;  $Cg_{UN-OECD-EU}$ ). The balance between the five "standards" is the final pre-assessment underlying the rating.

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

**$Sa_{EU-OECD}$  = Shareholders' agreements.** Main areas: Shareholders' agreements, rights of minority shareholders, access to information (Sources: the EU and OECD, and the main OECD regulators).

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

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

**$Cg_{UN-OECD-EU}$  = Corporate Governance and Sustainability.** Main areas: Overall assessment of applicant's ESG strategies and corporate governance (in terms of shareholding structure and sustainability) by weighting the various elements also in relation to the balance of the other variables (Sources: the EU, OECD and UN).

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

$$\frac{(F_{EU} + Sa_{EU-OECD} + Id_{EU-OECD} + Mw * f(Sa_{EU-OECD}) * f(Id_{EU-OECD}) + Cg_{UN-OECD-EU} * f(F_{EU}) * f(Id_{EU-OECD}))}{10} + k \quad \text{©}$$





## ISSUED RATING

Standard Ethics Rating [SER]: **EE-**

Long Term Expected SER [3y to 5y]: **EE**

## ALGORITHM – INPUT VALUES (**SUMMARY**)

The values for each standard are between **0 and 2**.

Assigned and input values are as follows:

**Fc**<sub>EU</sub> = 1,9

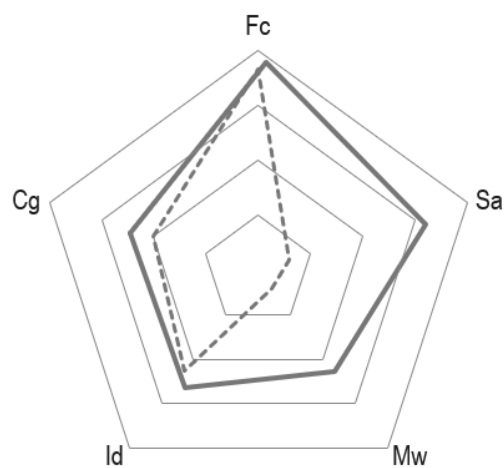
**Sa**<sub>EU-OECD</sub> = 0,3

**Mw** = 0,2

**Id**<sub>EU-OECD</sub> = 1,2

**Cg**<sub>UN-OECD-EU</sub> = 1,1

The values are subsequently adjusted by the algorithm.  
See final diagram below:





## GAROFALO HEALTH CARE REPORT

### 1. MARKET AND DOMINANT POSITIONS

Garofalo Health Care S.p.A. (hereafter, the “Company” or the “Group”, or simply “GHC”) is active in the field of private accredited healthcare.

The Group developed out of the professional activity and entrepreneurial spirit of the brothers Raffaele, Antonio and Mario Garofalo in the second half of the 1950s, when they set up five healthcare facilities in Rome. The company that today is called Garofalo Health Care S.p.A. was established in 2000, under the leadership of Raffaele Garofalo and his daughter Maria Laura Garofalo who launched a process of geographical and sectorial diversification as part of their growth strategy, by both strengthening their existing facilities and acquiring further institutions in other regions.<sup>4</sup>

Today GHC possesses 25 healthcare institutions operating in a number of specialist fields and different regions – including XRay One S.r.l., a diagnostic centre for diagnostic radiology and specialist medicine accredited with the National Health Service, located at Poggio Rusco, in the province of Mantua<sup>5</sup>, of which GHC recently acquired 100% ownership. GHC is present in 8 regions in Northern and Central Italy (Lombardy, Piedmont, Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Liguria, Tuscany and Lazio). GHC also owns 40% of Il Fiocco S.c.a.r.l., through its subsidiary Fi.D.eS. Medica s.r.l., which possesses 4 healthcare facilities.<sup>6</sup>

The Company operates in a highly regulated market.

All its operations are governed by a strict system of laws and regulations, including the need to obtain an official authorization to exercise healthcare activities, as well as accreditation, and accepting to submit to budget supervision when necessary.

In Italy the activity of private healthcare companies (called “case di cura” or “private hospitals”) is governed by regional legislation (since healthcare provision is a shared competence, between the State and the Regions) which also regulates supervision over such activities.<sup>7</sup>

As is the case for State-owned hospitals, in order for private healthcare facilities to be able to provide hospital services to the public, Italian law has introduced an accreditation system, whereby the Region must assess the private facility’s compliance with specific requirements deemed necessary for providing hospitalization and treatment. These requirements are of the same level as those expected of State-owned facilities (public hospitals and residential institutions offering medical treatment): once the assessment is positive, the Region issues an authorization.<sup>8</sup>

Healthcare is an important component of the Italian national economy. The national healthcare expenditure amounts to 8.9% of GDP, and in 2019 increased by 0.9% over 2018.<sup>9</sup>

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<sup>4</sup> The goal was to “acquire healthcare facilities located in the most virtuous Italian regions, i.e. those with good economic activity and financial stability, capable of providing healthcare services matching the needs of their community; providing healthcare and social welfare support in all sectors, from hospitalization to outpatient medical treatment to welfare support.” Source: Non-Financial Statement (DNF) 2019, pages 10-14.

<sup>5</sup> Concluded on 23 July 2020. Source: Press Release, 23 July 2020.

<sup>6</sup> As of 30 June 2020 the Group owned the following facilities: Villa Berica, CMSR Veneto Medica, Sanimedica, Villa Garda, Centro Medico S. Biagio (which includes Centro Medico S. Biagio S.r.l. and Bimar S.r.l.), Centro Medico Università Castrense, Eremo di Miazzina, Hesperia Hospital, Aesculapio, Casa di Cura Prof. Nobili, Poliambulatorio Dalla Rosa Prati, Ospedali Privati Riuniti, Rugani Hospital, Gruppo Fides, Villa Von Siebenthal. Source: Corporate Management Report, 30 June 2020, page 17.

<sup>7</sup> Article 117, paragraph 3, of the Italian Constitution states that the national or State institutions hold full legislative powers and shall establish the fundamental principles in relation to healthcare, while the Regions share concurrent legislative powers which they may use to regulate healthcare services in compliance with the basic principles laid down by State laws.

<sup>8</sup> See Article 8 of Legislative Decree no. 502, dated 30 December 1992.

<sup>9</sup> Overall healthcare spending, by both public and private entities, amounts to 156 billion Euros. Source: OASI 2019 Report, page 117.

Since it was first established by Law no. 833 in 1978, the basic principles underpinning the National Health Service (SSN in the Italian acronym) have been universality, equity and solidarity.

Articles 32 and 38 of the Italian Constitution introduce and protect the right to health and the right to welfare support.

The Constitution also assigns the legislative competence for healthcare and the protection of public health to both the State and the Regions. The State shall establish the Essential Levels of Care (Livelli Essenziali di Assistenza, LEA) which must be guaranteed throughout the national territory. While the Regions autonomously plan and manage all healthcare activities in the geographical area under their responsibility.

The national legal provisions concerning healthcare and social welfare support to be provided by private facilities is contained essentially in Articles from 8-bis to 8-octies of Legislative Decree 502/1992. The law regulates the accreditation of healthcare facilities to the National Health Service (SSN).

In order to monitor the healthcare sector the Ministry of Health relies on the collaboration of the National Agency for Regional Health Services (Agenzia Nazionale per i Servizi Sanitari Regionali, Agenas), a non-economic public entity supervised by the Ministry of Health, which was established by Legislative Decree no. 266 on 30 June 1993 and subsequent amendments. Also involved (as in every economic sector) are the national and European anti-trust authorities, the authorities supervising financial markets and those responsible for consumer protection.

The State determines and controls prices on the healthcare market.

In this sector there are specific advertising restrictions.<sup>10</sup>

The market shares held by the Company, although quite considerable, do not appear to be dominant.

From the time it was first listed on the Italian Stock Exchange, the Company has pursued a “Buy and Build” strategy.<sup>11</sup>

## 2. CONTRACTS, FINANCINGS AND PUBLIC AIDS

GHC has not benefitted from public funding.

The Group has constantly collaborated with the State and the Regions where its facilities are located; it is remunerated for its services according to the amounts defined by specific tariff frameworks.

## 3. MARKET DISTORTIONS, FAVOURITISMS AND CORRUPTION

The Company’s Code of Ethics includes provisions prohibiting unethical practices in **competition**, including the issue of **favouritism** and all forms of behaviour that may jeopardise or offend the dignity and professionalism of the Company’s employees, or deny them equal treatment.

Conflicts of interest and the fight against **corruption** are dealt with by the Code of Ethics and also in GHC’s Model 231, the Management and Organisational Model based both on the Guidelines issued by Confindustria (the Confederation of Italian Industry) and on those produced by the Italian Association of Private Hospitals (Associazione Italiana Ospedalità Privata, A.I.O.P.), and by existing best practices.

<sup>10</sup> The 2019 Budget Law, at Article 1 paragraph 525, establishes that as of 1 January 2019 “private healthcare and treatment facilities”, “professionals belonging to Registers of healthcare workers” and companies operating in the dentistry field are prohibited from publishing “information materials” whose contents are of a “promotional or advertising” nature.

<sup>11</sup> This strategy is intended to expand the Company by means of functional and targeted acquisitions, especially of successful and profitable companies in the Hospital, Medical Facilities and Welfare Support fields, centres of excellence characterised by diversified specialties. Source: Information Prospectus, page 253.

The Company has adopted some procedures on the issues of **tax avoidance** and **aggressive taxation policies**,<sup>12</sup> and others are being planned.<sup>13</sup>

The matter of **whistleblowing** is addressed in the Organisational, Management and Control Model, implemented in compliance with Legislative Decree 231/2001, which envisages reporting suspected breaches to the Supervisory Body (Organismo di Vigilanza, OdV) as called for in the regulations on whistleblowing.<sup>14</sup>

#### 4. INTERNAL VOLUNTARY RULES ON OWNERSHIP

GHC is listed on the MTA (Mercato Telematico Azionario) segment of the Italian Stock Exchange.<sup>15</sup>

GHC's main shareholder is **Larama 98 S.p.A.** which owns **55.51%** of share capital. The remainder is held by: **Maria Laura Garofalo**<sup>16</sup> with **13.20%**; **PII 4 S.a.r.l.** with **9.97%**<sup>17</sup>; **Anrama** with **2.29%**. **19.03%** of shares are publicly traded on the market.<sup>18</sup>

None of the companies are off-shore companies.

GHC's share capital amounts to **28,700,000** euros and is broken down into 82,000,000 common shares without indications of nominal value.

There are provisions for increased voting rights, with a special List of those (Loyalty Shares) to whom this privilege is granted.<sup>19</sup>

There do not appear to be any **listed derivative instruments** on the market whose underlying assets are GHC shares.

#### 5. OWNERSHIP AND CONFLICT OF INTERESTS

None of the partners is involved in government (neither local nor national), or is involved in regulating the activity of the market the Company operates in.

There are no regulations defining the quality or quantity of top management positions, other than those established by national legislation.

#### 6. NON-CONTROLLING SHAREHOLDERS (MINORITY) PROTECTION AND DIRECTORS APPOINTMENT

The issue of minority shareholders is addressed in the Company By-laws, in compliance with national legislation and the Corporate Governance Code for companies listed on the Italian Stock Exchange.<sup>20</sup> There do not appear to be any further policies on this issue.

<sup>12</sup> The Company has introduced a "PA DACFO 04" procedure in the account-closing phase, in compliance with model 262 on accounting transparency, which records all transactions relating to bookkeeping and provides the calculations of taxes owing at the end of the accounting period.

<sup>13</sup> "Within 2020 the Lead Company will introduce a tax procedure aimed at providing more details on some of the activities of the Group's companies (only those that are part of the Group's consolidated tax return)." Source: corporate source.

<sup>14</sup> The Supervisory Body consists of a single Officer.

<sup>15</sup> The Company was listed on the Stock Exchange on 9 November 2018.

<sup>16</sup> Larama 98 S.p.A. and Anrama are companies belonging to the CEO, Maria Laura Garofalo, and her family.

<sup>17</sup> Shareholder PII 4 S.à.r.l. is an SPV (special vehicle) company owned by the fund Peninsula Investments II S.C.A.

<sup>18</sup> Source: Corporate Management Report, 30 June 2020, page 7.

<sup>19</sup> Article 7 of the Company By-laws, in compliance with Article 127-quinquies of TUF (Consolidated Law on Finance), states that any share that has been in the ownership of the same person for at least 24 continuous months from the date when it was included in the special List of Loyalty Shares drawn up by the Company (the "List"), shall have the right to two votes.

<sup>20</sup> The representation of minority shareholders is defined in the Company's By-laws, in Article 27: "i) a number of shareholders representing jointly at least 2.5% (two point five), or any other threshold to be determined by future provisions, of the share capital giving the holders a right to vote in general meetings convened to appoint members of the Board of Directors, or a different threshold determined by legal provisions or regulations, are entitled to submit a slate of candidates containing a number of names equal to the number of directors to be appointed, each name being given a progressive number." Source: Company By-laws, page 9.

The Board of Directors and the Board of Statutory Auditors both include members representing minority shareholders.<sup>21</sup>  
The Company has specific plans to increase the participation and representation of minority shareholders.<sup>22</sup>

## 7. INTERNAL VOLUNTARY RULES ON DIRECTORS

GHC has adopted a traditional **management and control system**, based on the establishment of two bodies appointed by the General Meeting of Shareholders: the **Board of Directors**, responsible for company management and business strategies, and the **Board of Statutory Auditors**.<sup>23</sup>

The **Board of Directors** is granted broad powers to ensure ordinary and extraordinary management of the company.<sup>24</sup>  
At present GHC's Board of Directors consists of 11 members, 6 of whom are women, all Italians.<sup>25</sup>

Its composition has taken into consideration the need for **pluralism of competences and skills**, but not of **nationalities**. Its composition successfully **achieves gender equality**.  
There are **no cases of interlocking directorships** within the Group's companies.

There are **family ties** among the members of the Board of Directors.<sup>26</sup>

The majority in the Board of Directors is not formed by independent members. There are three **Independent Directors**.<sup>27</sup> Four members of the Board are Executive Directors.<sup>28</sup>

The Board of Directors has duly established an **Appointments and Remuneration Committee**<sup>29</sup> – whose function is to propose and advise – and

<sup>21</sup> Press release issued on 29 April 2020: "The Shareholders' General Meeting resolved, in compliance with Article 2386 of the Italian Civil Code, to accept the proposal put forward by the Board of Directors and appoint as members of the Board: Ms Franca Brusco (proposed by the Committee of Asset Managers of the Association of Asset Management Companies: she has been co-opted, as specifically requested by the Company, before the existing Board's term expires), Professor Federico Ferro-Luzzi and Ms Grazia Bonante (...). Ms Franca Brusco, as already disclosed in a press release on 14 April 2020, was proposed as a candidate for the Board of Directors also by a number of shareholders who hold an overall 4.10767% of the Company's share capital (Institutional Investors) (...)." Source: Press Release, 29 April 2020.

<sup>22</sup> The appointment to the Board of a director from the second slate of candidates, and specifically the candidate on that slate who receives the highest number of votes, is also envisaged. From that second slate, the Minority Slate, a standing auditor and an alternate are also appointed. The first candidate on the Minority Slate will be appointed Chair of the Board of Statutory Auditors. Source: Company By-laws, pages 11 and 16.

<sup>23</sup> Source: Report on Corporate Governance and Ownership Structure 2019.

<sup>24</sup> Excluding those functions which Italian law attributes solely to the Shareholders' Meeting.

<sup>25</sup> As of 31 December 2019 the Board of Directors was made up as follows: Alessandro Maria Rinaldi (President), Maria Laura Garofalo (CEO), Claudia Garofalo (Director), Umberto Suriani (Director), Patrizia Crudetti (Director), Giuseppe Giannasio (Director), Alessandra Rinaldi Garofalo (Director), Nicola Colavito (Director), Franca Brusco (Independent Director), Grazia Bonante (Independent Director), Federico Ferro Luzzi (Independent Director). Source: Report on Corporate Governance and Ownership Structure 2019, page 23. All their CVs can be found on the Company's website.

<sup>26</sup> CEO Maria Laura Garofalo is the wife of Alessandro Maria Rinaldi (President of GHC) and the mother of Alessandra Rinaldi Garofalo. Claudia Garofalo is the niece of Maria Laura Garofalo.

<sup>27</sup> The following members possess the independence requirements envisaged by Article 148, paragraph 3, of Legislative Decree 58/98 and Article 3 of the Corporate Governance Code of Listed Companies: Franca Brusco, Grazia Bonante, Federico Ferro Luzzi. Source: Report on Corporate Governance and Ownership Structure 2019, page 23.

<sup>28</sup> The following are Executive Directors: Maria Laura Garofalo – Chief Executive Officer; Claudia Garofalo – Director, "Head of Finance" and CEO of Villa Von Siebenthal; Umberto Suriani – Director and CEO of several GHC companies of strategic importance, including Fi.D.eS Medica S.r.l., Centro di Riabilitazione S.r.l., RO&MAR S.r.l., Fi.D.eS Servizi S.c.a.r.l., Genia Immobiliare S.r.l. and Prora S.r.l.; Giuseppe Giannasio – Director and Legal Representative of Ledcon S.r.l., to which GHC has also given a specific role as consultant on all acquisitions. The following are Non-Executive Directors: Alessandro Maria Rinaldi (President of the Board of Directors), Patrizia Crudetti, Alessandra Rinaldi Garofalo, Nicola Colavito, Franca Brusco, Grazia Bonante, Federico Ferro-Luzzi. Source: Report on Corporate Governance and Ownership Structure 2019, page 37.

<sup>29</sup> The following Independent and Non-Executive Directors are the members of the Appointments and Remuneration Committee: Federico Ferro-Luzzi (President), Franca Brusco, Grazia Bonante; they replaced the previous members on 3 July 2019. Source: Report on Corporate Governance and Ownership Structure 2019, page 43.

a **Control, Risks and Sustainability Committee**<sup>30</sup> whose functions include enquiry as well as offering proposals and advice.

All partners must comply with the provisions of the **Code of Ethics**, to be observed by all companies in the Group. The Code is binding for all those who act in the name of the Company; it is the main instrument containing **Internal Voluntary Rules**, that go beyond what is laid down by existing legislation.<sup>31</sup> The Code of Ethics is indirectly in compliance with international strategies. There is no explicit reference to international guidelines on Sustainability and ESG issues.

There are no provisions for representative(s) of employees on the Board of Directors.

#### 8. DIRECTORS, CONFLICTS OF INTEREST AND RELATED COMMITTEES

Members of the Board shall comply with the principles enunciated in the Code of Ethics and the procedures contained in the Internal Voluntary Rules.

The Code of Ethics and the system of procedures on **conflicts of interest** only address the issue in a very general manner. At present, there are no specific policies on this matter.<sup>32</sup> The Company is currently drafting a specific regulation.<sup>33</sup>

The role of Director responsible for internal control and risk management is assigned to the CEO who, in exercising this role, must comply with a specific procedure.<sup>34</sup>

The Board of Directors supervises and assesses the activity of the Supervisory Board and is ultimately responsible for ensuring the effective functioning of the Model 231.<sup>35</sup>

The independence requirements of Directors are those envisaged in the TUF (Italian Consolidated Law on Finance) and those contained in the Corporate Governance Code adopted by all companies listed on the Italian Stock Exchange.<sup>36</sup> Additional requirements are the provisions governing conflicts of interest contained in the Code of Ethics.

<sup>30</sup> The following Non-Executive Independent Directors are the members of the Control and Risks Committee: Franca Brusco (President), Federico Ferro-Luzzi, Grazia Bonante; they replaced the previous members on 3 July 2019. Source: Report on Corporate Management and Ownership Structure 2019, page 43. On 26 September 2019, the Board changed the name of the Control and Risks Committee to Control, Risks and Sustainability Committee and approved amendments to the Committee's regulation in accordance with its new mandate, extended to cover issues of Sustainability/ESG, with enquiry, proposal and advisory functions.

<sup>31</sup> The principles enunciated in the Code of Ethics are binding for everyone involved with the Company: shareholders, employees, physicians, technicians, nursing and auxiliary staff and any person working directly or indirectly, on a permanent or temporary basis, on behalf of or for the Company. Source: Code of Ethics, pages 3-4.

<sup>32</sup> Item 1.7 of the Code of Ethics states: "*GHC takes the utmost care to avoid all conflicts of interest.*" Source: Code of Ethics, page 7. According to the Company: "There is not a specific department tasked with controlling conflicts of interest that are not of an immediate economic nature. Such situations, once identified, can be examined by the department that first becomes aware of them, also requesting the assistance of the Legal and Corporate Affairs department of the Holding (GHC S.p.A.). Source: corporate source.

<sup>33</sup> There are plans to transform the information exchanges between the Supervisory Board and the top management of subsidiaries into regular periodic communications, either six-monthly or annually. These written communications to the Supervisory Board will include the filling in of a checklist recording changes implemented. Source: corporate source.

<sup>34</sup> Guidelines for the Internal Control and Risk Management System (Sistema di controllo interno e gestione dei rischi, SCIGR). As stated in the Report on Corporate Governance and Ownership Structure, the role of Director responsible for internal control and risk management was given to the CEO Maria Laura Garofalo: "On 8 August 2018 the Company's Board of Directors had appointed Patrizia Crudetti to the post of Director responsible for internal control and risk management, an appointment effective from the date of negotiations. At a later date, the Board of Directors, with its decision taken on 25 March 2019, assigned the role to Maria Laura Garofalo in order to ensure that the management and maintenance of the internal control and risk management system was kept within the Group." Source: Report on Corporate Governance and Ownership Structure, page 62.

<sup>35</sup> Source: Model 231-General Section, page 21.

<sup>36</sup> Article 148 of the TUF. Corporate Governance Code of Companies Listed on Italian Stock Exchange, pages 21-22.

As far as remuneration is concerned, compliance with remuneration policies is ensured by the supervisory bodies and the involvement of the internal control entities.

Remunerations (including those of the Directors) are defined by the Company's internal guidelines.<sup>37</sup>

The **Internal Control, Risks and Sustainability Committee** is formed by three independent directors and is supported in its activities by the Board of Statutory Auditors and by the internal control department. In its **control and risk role** it is responsible for addressing and managing risks, as well as protecting corporate assets.<sup>38</sup>

There are no Shareholders' Agreements involving directors or top management.

None of the Company's directors are also directors, managers, statutory auditors, or consultants in other companies controlled by shareholders involved in local or national government institutions, judicial bodies, licensing agencies or market supervisory authorities.

#### 9. DISCLOSURE, TRANSPARENCY AND INTERESTED PARTIES

Apart from its usual financial accounting, the Company also produces an integrated Non-Financial Statement (ESG). This is a transparent and detailed report, typically disclosed by most listed companies.<sup>39</sup>

The "**comply or explain**" principle, envisaged for listed companies, is implemented, although it is not formally required by the Code of Ethics.<sup>40</sup>

The issue of **gifts** is addressed in the Code of Ethics<sup>41</sup> and in the Organisational Model.<sup>42</sup>

There are many and varied instruments that the Company uses to ensure that its stakeholders are provided with accurate and reliable information. Documentation disclosed is clear, exhaustive and easy to access.<sup>43</sup>

#### 10. PARTICIPATION AND VOTE IN GENERAL MEETINGS

There are no additional instruments facilitating participation in Shareholders' Meetings, beyond the provisions contained in the corporate By-laws.<sup>44</sup>

<sup>37</sup> Every year the Company discloses its remuneration policy: "Report on the remuneration policy for 2020 and on remuneration paid out in 2019, in compliance with Article 123-ter of the TUF and 84-quater of the Consob (Italian Securities and Exchange commission) regulation for issuers."

<sup>38</sup> For the Committee's functions, see the Report on Corporate Governance and Ownership Structure 2019, pages 51-52.

<sup>39</sup> The Non-Financial Statement is drawn up according to the standards of the Global Reporting Initiative (GRI), adopting a "GRI-Referenced" approach. The Company has adopted the most recent version (2018) of specific standard GRI 403 (Health and Safety in the workplace). It will be drafted according to a specific procedure, PA DACFO 11 – Procedure for the Non-Financial Statement.

<sup>40</sup> It is implemented in relation to the Corporate Governance Code for Listed Companies and Non-Financial Reporting.

<sup>41</sup> Source: Code of Ethics, page 8.

<sup>42</sup> Specific registers will be used to record the number and the value of gifts received by staff while acting on behalf of the Company. As reported in the Special Sections of the Organisational Model, the regulations state that: "In the case of gifts or services received, the following shall be established: a) maximum thresholds of gifts/services deemed acceptable; b) the methodology and criteria for keeping a register to record gifts/services received (whether they are accepted as such or not) and of the person/company offering such gifts or free-of-charge services." Source: Organisational and Management Model in compliance with Legislative Decree 231/2001 – Special Sections, page 18.

<sup>43</sup> The Company's website ([www.garofalohealthcare.com](http://www.garofalohealthcare.com)) appears to be very well designed; it allows one to access a variety of sections and sub-sections (the Group, Facilities, Investor Relations, Governance, Media, Archive), where any information one may be looking for can be found quickly and easily.

<sup>44</sup> Articles 14-24 of Company By-laws.



11. EMPLOYMENT AND  
HUMAN RESOURCES  
SELECTION

As of 31 December 2019, the Company had **1,350** employees (294 of whom were employees of the facilities acquired in 2019), a considerable increase from the 1,077 employees in 2018.<sup>45</sup>

GHC is constantly assessing its employees' level of satisfaction by means of questionnaires.<sup>46</sup>

The Company is currently examining the possibility of adopting new initiatives on corporate welfare.<sup>47</sup>

12. HEALTH, SAFETY  
AT WORK AND SOCIAL  
DIALOGUE

As for the **health and safety** of its workers, all the Group's facilities are authorized to operate within the National Health Service.

In compliance with the provisions for the COVID-19 health emergency, all the Group's facilities implemented safety measures and sanitisation procedures.<sup>48</sup>

13. ADAPTING TO  
CHANGES

This issue, which is central in EU and OECD guidelines, has not been addressed by the Company. There do not appear to be any specific initiatives on this question.<sup>49</sup>

14. ENVIRONMENT

**Environmental protection** is one of the basic principles established by the Code of Ethics<sup>50</sup> and is addressed in the Non-Financial Statement as well.<sup>51</sup>

GHC has undertaken to implement programmes ensuring that **energy efficiency** is further increased, also by a greater use of renewable sources.<sup>52</sup> The report on CO2 emissions has been implemented correctly.<sup>53</sup>

<sup>45</sup> On 31 December 2019 GHC as a Group had 2,933 people working for it (925 of which were employees of facilities acquired in 2019), up by 1,250 as compared to the figure of 1,683 in 2018. On 31 December 2019 there were 1,583 professionals (including physicians, advisors, psychologists, healthcare technicians) working for the Company, as compared to 606 in 2018; of these 631 were working for the new facilities acquired in 2019. 22% of employees are male and 78% are female. Source: Non-Financial Statement (DNF) 2019, page 35.

<sup>46</sup> "All the Group's healthcare facilities are committed to ensuring that every person working in them may freely express their opinions. In over 60% of the facilities (15 out of 24) questionnaires are administered on a periodical basis to employees to evaluate their degree of satisfaction. We would further like to point out that: (i) at Villa Berica all employees are also asked to answer a questionnaire on their training and update requirements; (ii) Rugani Hospital administers its questionnaires to employees in collaboration with the MES (Management and Healthcare Laboratory) of Sant'Anna University, the School of Advanced Studies in Pisa." Source: corporate source.

<sup>47</sup> Source: corporate source.

<sup>48</sup> In the first semester of 2020 the guidelines on environmental protection and safety measures focussed on sharing the operational protocols drafted to respond to the health emergency with all the Group's facilities, on 25 February, 9 March and 25 March. Source: corporate source. Furthermore, as reported in the Non-Financial Statement 2019: "In order to prevent or limit contamination of facilities, and to protect patients and healthcare workers, all GHC facilities adopted from the very beginning of the emergency very rigid control and protection measures, in some cases much stricter than those contained in national and/or regional laws and regulations." Source: Non-Financial Statement 2019, page 5.

<sup>49</sup> The Company has issued implementation policies on changes to be introduced in order to promote dialogue with stakeholders. Entrance barriers to the reference market and Italian legislation on these matters are both very strict, thereby reducing the impact that company policies can exert.

<sup>50</sup> Point 1.9 of the Code of Ethics states as follows: "GHC acknowledges the importance of respecting the environment and compels its Recipients to consider the environmental effects of their decisions so as to compensate for any negative environmental impact. GHC plans its activities by seeking the best possible balance between economic and environmental sustainability." Source: Code of Ethics, page 7.

<sup>51</sup> GHC protects the environment and the health of its physicians and other employees, of its patients and of third parties, "in an effort to achieve continuous improvements of its performances in this matter: a) it undertakes to comply with regulations on safety and the environment; b) it drafts and disseminates guidelines for environmental protection and safety procedures that must be complied with; c) it promotes the participation of its employees in procedures for risk prevention and environmental protection, as well as the protection of one's own health, that of one's colleagues and of third parties." Source: Non-Financial Statement 2019, page 38.

<sup>52</sup> Although the Group as a whole does not possess a system for in-house energy production, the Non-Financial Statement mentions some initiatives along these lines: "(...) the presence of a solar energy facility for the production of hot water for medical uses at Rugani Hospital and a district heating system at Centro Medico San Biagio based on a biomass furnace producing heating and hot water for medical uses." Source: Non-Financial Statement 2019, page 48.

<sup>53</sup> "Direct and indirect CO2 emissions relating to the GHC Group's main consumptions belong to two categories: direct emissions (Scope 1): greenhouse gas emissions from direct fuel consumption by the Company (for example, natural gas, diesel fuel and

Several facilities belonging to the Group have been granted ISO 9001 quality certification.<sup>54</sup>

#### 15. CONSUMERS AND QUALITY

The fact that the Group's facilities<sup>55</sup> are accredited with the National Health Service ensures their quality and means that their services are monitored. The quality management service implemented by GHC envisages the use of questionnaires monitoring the degree of satisfaction of both patients and healthcare workers.<sup>56</sup>

All well-grounded complaints relating to breaches of privacy and/or loss of customers' personal data are reported.<sup>57</sup>

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

#### 16. SCIENCE AND TECHNOLOGY

GHC has adopted several initiatives in this field, in collaboration with Research Centres, as well as Italian and foreign Universities.<sup>58</sup> Staff training programmes are constantly being provided and are organised on a continuous basis.<sup>59</sup>

On 8 August 2018 the Board of Directors established a Scientific Committee, made up of professional scientists to act as advisors to the Board.<sup>60</sup>

#### 17. LOCAL COMMUNITIES

Article 40 of the Company's By-laws states that an amount not exceeding 1% of the year's net profits, according to a proposal submitted by the Board of Directors, may be allocated to a special fund: the Board of Directors shall then

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petrol); indirect emissions (Scope 2): greenhouse gas emissions due to the consumption of electricity, heat and steam which the Company has bought or imported." Source: Non-Financial Statement 2019, page 49.

<sup>54</sup> They are: Villa Berica, CMSR, Sanimedica, Villa Garda, Centro Medico San Biagio, Centro Medico Università Castrense, Poliambulatorio Dalla Rosa Prati, Ospedali Privati Riuniti, Gruppo Fides (RoeMar), Gruppo Fides (Centro di Riabilitazione), Gruppo Fides (Fides Servizi). Source: Non-Financial Statement 2019, p. 46.

<sup>55</sup> With the exception of Sanimedica.

<sup>56</sup> All the Group's facilities (except for Villa Von Siebenthal, because of the special nature of its activities) ask their patients/clients to fill in questionnaires, on a voluntary basis, to determine their level of satisfaction. Some facilities (such as Villa Berica) use these questionnaires for their internal analysis and monitoring activities. Source: corporate source.

<sup>57</sup> No breaches of privacy relating to personal data occurred in 2019. Source: Non-Financial Statement 2019, page 44.

<sup>58</sup> The GHC Group's facilities are very active in research programmes in collaboration with Italian and foreign Research Centres and Universities, for the most part involving highly advanced specialties such as heart surgery, vascular surgery, orthopaedics traumatology, spinal surgery, reconstructive surgery of the upper limbs, urology, internal medicine, diabetology and the diabetic foot, as well as the treatment of psychiatric disorders and eating disorders. Source: Non-Financial Statement 2019, page 35. Through its subsidiaries, the Company participates in collaboration projects with national and international Universities, and has published numerous scientific papers and treatises, obtaining prestigious acknowledgements for its work. Source: Information Prospectus.

<sup>59</sup> "Management of training activities is the responsibility of the individual facilities; nearly all of them have their own internal training programmes. They organize classroom training but also more practical forms of "training on the job" for their newly-hired staff who are placed under the tutorship of more expert staff members. In 2019 the Group's facilities organized 19,233 hours of training for their employees (of these, 2,223 hours were provided for the employees of the facilities acquired in 2019); this was an increase over the 14,602 hours organized in 2018. The majority of these training courses were compulsory courses for new recruits and updates for other employees, but there were also ad hoc courses on the specific activities that individual employees are required to perform. There were training courses provided for other collaborators who are not employees as well, amounting to 3,362 hours of compulsory and optional sessions in 2019 (of these 474 hours were addressed to workers in the new facilities acquired in 2019); an increase as compared to the 2018 figure of 1,052 hours." Source: Non-Financial Statement 2019, pages 35-36.

<sup>60</sup> The Committee's goal is to provide the GHC Group's clinicians and researchers with a forum where they can: share their scientific activities and develop synergy with other colleagues; act as promoters of common guidelines for planning and submitting research projects to national and international agencies offering funding for medical research and healthcare services; map the centres of excellence present within the network of the GHC Group's facilities." Source: Non-Financial Statement 2019, page 28. On 18 December 2019 Professor Oscar Maletti, an eminent and world-renowned specialist in the field of vascular surgery, was nominated President of the Committee.

be free to choose how to use this fund for scientific and/or charitable purposes.<sup>61</sup>

Donations are not accounted for. There are no details describing the decision-making process followed in allocating them.

#### 18. BUSINESS PARTNERS

The Company's **suppliers** are also required to comply with the Code of Ethics.

The Non-Financial Statement describes all the procedures that must be followed in procurement<sup>62</sup> and in supplier selection.<sup>63</sup>

The time GHC takes to pay its suppliers is reported and accounted for.<sup>64</sup>

#### 19. HUMAN RIGHTS

The issue of **human rights** is addressed, in terms of principles to be followed, both in the Code of Ethics and in the Non-Financial Statement.

In corporate documents, however, there is no explicit reference to any of the international instruments on the subject.

#### 20. EUROPEAN STRATEGIES

International guidelines, as sources for ESG strategies, are only partially adopted.

The Company has undertaken to achieve the **sustainability** goals in the Strategic Roadmap 2024.<sup>65</sup>

#### 21. CONCLUSIONS

Garofalo Health Care S.p.A. is active in the field of private accredited healthcare, which in Italy is a highly regulated market with strict laws. Founded in 2000, and developed out of a family business experience, the Company has undergone a process of geographical and sectorial diversification, expanding to various regions throughout Italy.

Its governance is characterised by a rather stable and fairly concentrated shareholder base.

<sup>61</sup> The Board of Directors is granted full autonomy in relation to this fund and how it is to be used for scientific and/or charitable purposes. In 2019 the Board proposed – and the Shareholders' Meeting approved – to allocate about 17,000 euros to this fund. Source: Press Release, 29 April 2020.

<sup>62</sup> When large-scale and significant purchases, useful for all the Group's facilities are needed, the procurement is handled by the Group's Lead Company which negotiates framework agreements with the supplier, specifying the conditions of the order (quantity, price, delivery deadlines, and also payment terms, etc.); suppliers are selected from among primary national and international companies. Once the framework agreement has been negotiated, the individual subsidiaries will handle contacts directly with the supplier for their own deliveries. For purchases not covered by the framework agreement, the individual facilities negotiate their procurement independently. The Lead Company is supported by the subsidiaries in this procurement process, providing the specifications for the goods and/or services they require, or any other needs they may have. Source: Non-Financial Statement 2019, pages 45-46.

<sup>63</sup> The supplier selection process evaluates the technical and qualitative characteristics of goods and/or services being purchased as well as the observance of delivery deadlines and the payment terms. The supplier selection process will also take into consideration – where applicable – the following elements: that the supplier is a leader in the sector for that specific type of product; that it produces a catalogue including the products in question; that the price it offers is competitive; that its delivery times are acceptable. Source: Non-Financial Statement 2019, pages 45-46.

<sup>64</sup> Days Payable Outstanding (DPO), the average time taken to pay suppliers, is 101 days. DPO is defined as the ratio between Accounts payable as reported in the Group's yearly Consolidated Financial Statement and the sum of all Purchases of goods and materials, of services and the enjoyment of third parties' assets, and other purchases, as shown in the Group's yearly Consolidated Financial Statement, multiplied by the number of working days in that year. Source: Corporate Management Report 2019, page 20.

<sup>65</sup> As far as the Board of Directors is concerned, the Company undertakes to: "(i) Ensure that the Board of Directors is fully involved in sustainable business and strategy; (ii) Integrate the ERM (Enterprise Risk Management) and Non-Financial Statement processes fully in the elaboration of corporate strategy. Whereas, in relation to the Group's and the individual facilities' top management, the Company undertakes to: (i) Consolidate top management's knowledge and awareness of all potential pre-financial elements; (ii) Collaborate with top management on drafting a strategic Roadmap; (iii) Consolidate the involvement and the exchange with internal stakeholders and begin a communication and exchange programme with external stakeholders; (iv) Launch an internal project aimed at communicating with all employees so as to enhance the understanding and full appreciation of the Non-Financial Statement and 2024 Roadmap." Source: Non-Financial Statement 2019, page 10.

ESG (Environmental, Social, Governance) policies and reporting are a fairly recent innovation: they appear to be fully consistent with best practices in this sector. The Risk Management system is well conceived and capable of addressing non-financial issues as well. It is highly probable that future sustainability strategies will be fully compliant with the guidelines on ESG matters issued by UN, OECD and EU, and will also refer to them formally. There are future plans along these lines. The Company's long-term outlook is positive.

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## SOURCES

*Where there are no dates,  
the most recent  
versions prevail*

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

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

## Other sources

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



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For all inquiries, please write to: *headquarters@standardethics.eu*



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