GEORGIA HEALTHCARE GROUP PLC

At the Heart of the Georgian Healthcare Ecosystem

Annual Report and Accounts 2019


Clinics
Read more on page 12
Diagnostics
Read more on page 15
Hospitals
Read more on page 11
Medical Insurance
Read more on page 14
Pharmacy and Distribution
Read more on page 13

Who We Are

Investing in the growth and quality of healthcare in Georgia.

Georgia Healthcare Group ("GHG" or the "Group") is the largest and the only fully integrated healthcare provider in the fast-growing, predominantly privately-owned Georgian healthcare ecosystem, with an aggregate annual value of c.GEL 3.8 billion. Georgia Healthcare Group PLC is the UK-incorporated holding company of the Group and is listed on the premium segment of the London Stock Exchange.

We strive to deliver on our mission every day in order to improve the quality of medical and health care in Georgia across an increasing spectrum of services and products, thereby supporting the market's continuing development.

Digital Transformation

Read more on page 16 →

Entering the Beauty Retail Market – Partnership with The Body Shop

Read more on page 20 →

Expanding Our Offering in Medical Tourism

Read more on page 22 →

Talent Development

Read more on page 24 →

Strategic Report

Governance

Financial Statements

Additional Information

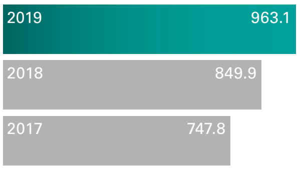
Financial Highlights

The effectiveness of our strategy is reflected in the record 2019 financial results highlighted below.

All highlights below, excluding IFRS 16 impact.

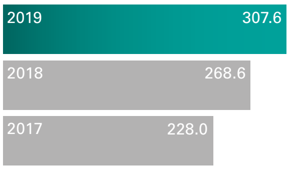
Revenue (GEL million)[1]

963.1
+13.3% y-o-y



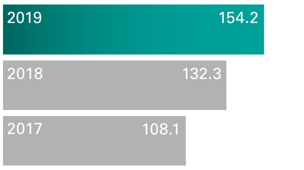
Gross profit (GEL million)

307.6
+14.5% y-o-y



EBITDA (GEL million)[2]

154.2
+16.6% y-o-y

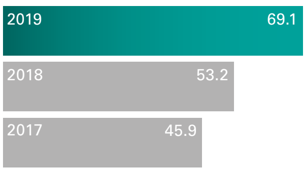


Clinics EBIDTA margin (%)[2]

19.9%
+4.5 ppts y-o-y

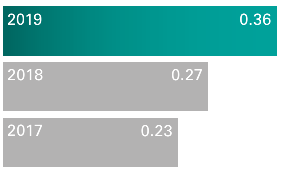
Profit (GEL million)[2]

69.1
+29.8% y-o-y



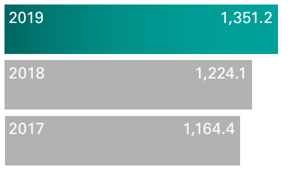
Earnings per share (GEL)[2]

0.36
+33.4% y-o-y



Total assets (GEL million)

1,351.2
+10.4% y-o-y



Pharmacy and Distribution gross profit margin (%)

25.5%
0.0 ppts y-o-y

Hospitals EBITDA margin (%)[2]

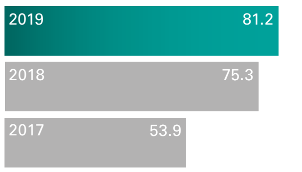
25.6%
-0.5 ppts y-o-y

Pharmacy and Distribution EBITDA margin (%)[2]

10.6%
+0.5 ppts y-o-y

EBITDA to cash conversion ratio (%)[2]

81.2%
+5.9 ppts y-o-y



Return on invested capital (%) (adjusted)[3]

14.9%
+1.0 ppts y-o-y

1 The amount represents gross revenue before corrections and rebates (see Financial Statements, Note 3). Revenue net of corrections and rebates was GEL 960.6 million in 2019 (2018: GEL 846.3, 2017: GEL 745.7 million).
2 Numbers for 2019, including IFRS16 impact, were: EBITDA – GEL 175.5 million; Hospitals EBITDA margin – 25.8%; Clinics EBITDA margin – 23.1%; Pharmacy and Distribution EBITDA margin – 13.7%; Profit – GEL 61.6 million; EBITDA to cash conversion ration – 83.5% and EPS – GEL 0.31.
3 Return on invested capital ("ROIC") is adjusted to exclude newly launched facilities that are in roll-out phase.

Operational Highlights

2019 operating highlights reflect our footprint, which has been substantially expanded over the last five years, the completion of our three-year capital expenditure programme and leveraging the strength of our now relatively modern asset base.

Number of referral hospitals

18

+0 (over 2018)[1]

Number of community clinics

19

+0 (over 2018)[1]

Number of polyclinics

15

-1 (over 2018)

Number of pharmacies

296

+26 (over 2018)

Number of insured

c.236,000

+c. +78,000 (over 2018)

Mega Laboratory

Number of hospital and clinic beds

3,320

+0 (over 2018)

Referral hospital bed occupancy rate[2]

57.1%

+2.4 ppts (over 2018)

Number of registered patients in Tbilisi polyclinics

c.193,000

+c.47,000 (over 2018)

Number of unique customers served

c.2,033,000

1 Following the split of our healthcare services business in 2019, we revised the classification of our hospitals and clinics. Three of our clinics have become sufficiently large to merit hospitals classification and one of our hospitals was reclassified as a clinic. For comparison purposes, the number of our hospitals and clinics for 2018 are reclassified accordingly.

2 Excluding healthcare facilities, Caucasus Medical Centre (formerly Regional Hospital or Deka) and Tbilisi Referral Hospital (formerly Sunstone), which remained in roll-out phase in 2019, the rate stood at 61.3%.

At a Glance

We are the largest healthcare service provider in the fast-growing, predominantly privately-owned, Georgian healthcare ecosystem.

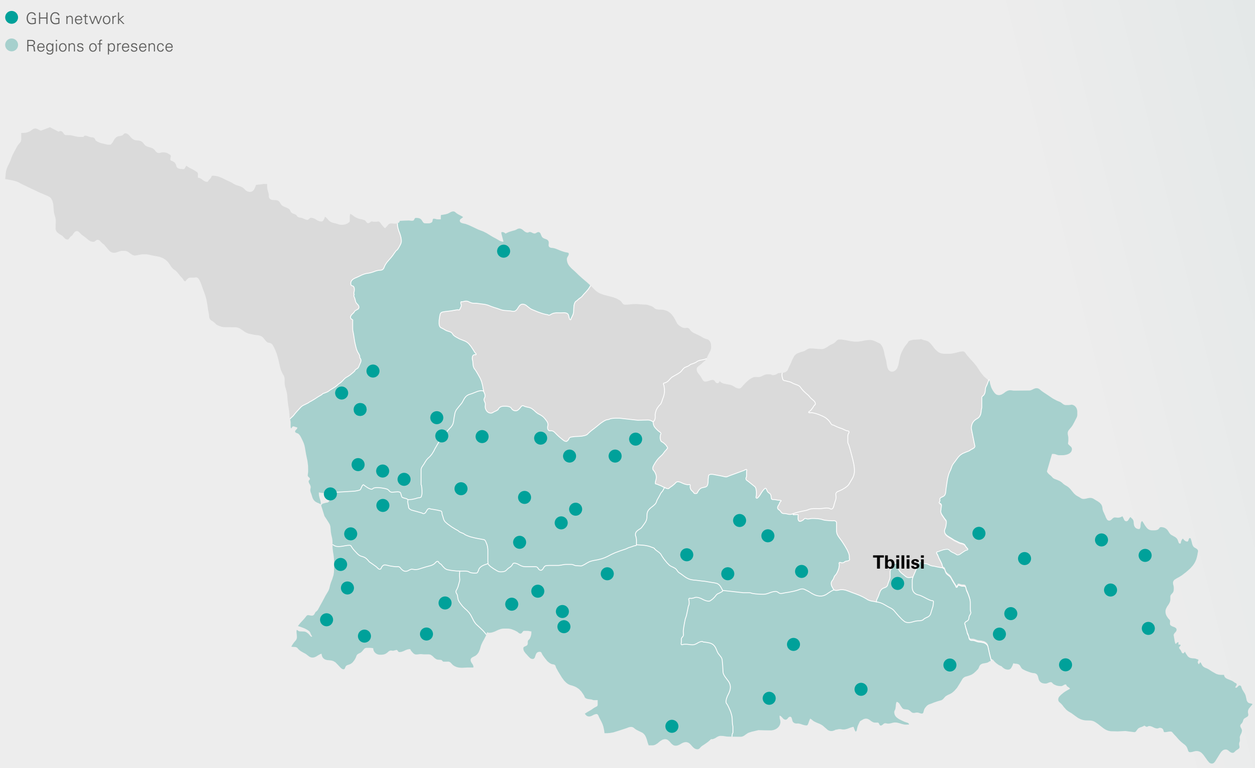
The structure of our business

We lead the market by offering the most comprehensive range of inpatient and outpatient services, targeting the entire country's population and beyond through our vertically integrated network of hospitals and clinics. We also operate the largest pharmacy and distribution business, and are the biggest medical insurance provider in the country. GHG's market-leading position, its unique business model with significant cost and growth synergy advantages, and its experienced management team, make it a compelling investment story.

The first-class leaders of our medical team are driving the improvement of service quality and access to healthcare across the organisation. These factors, together with the improved access to healthcare services due to the Universal Healthcare Programme ("UHC") financing, enable us to capitalise on the existing service gaps and historically low quality of medical care in the country.

Extensive geographical coverage

Network of GHG healthcare facilities and pharmacies, covering 75% of the Georgian population.



18 Referral hospitals

19 Community clinics

15 Polyclinics

296 Pharmacies

1 Mega Laboratory

Market leader on each operating segment in Georgia

- The largest healthcare service provider: 23% market share by number of referral hospital and community clinic beds – 3,320[1].
- The largest pharmaceuticals retailer and wholesaler: c.32% market share by sales[2], over two million client interactions per month, with c.0.8 million loyalty card members. The business also has a small presence in Armenia.
- The largest medical insurer: c.32% market share[3] by revenue, c.236,000 insured individuals as of December 2019.
- The largest diagnostics laboratory not only in Georgia but in the entire Caucasus region ("Mega Lab"): opened in December 2018.
- Institutionalising the industry: strong corporate governance; standardised processes; improving safety and quality by progressive implementation of the Joint Commission International ("JCI") benchmarked standards; own personnel training centre.

Business model with cost and growth synergy advantages

- The single largest integrated company in the Georgian healthcare ecosystem, with a cost advantage due to the scale of operations:
  - The largest purchaser of pharmaceutical products in Georgia
  - The next largest healthcare services competitor has only 5% market share by beds
- Better access to professional management and high-calibre talent:
  - One of the largest employers in the country: c.15,900 full-time employees, including c.3,600 physicians, c.3,400 nurses and c.2,900 pharmacists
- Referral system and synergies with Insurance and Pharmacy and Distribution businesses:
  - Presence of patient pathway and referral synergies
  - Insurance activities providing a steady revenue stream for our polyclinics and pharmacies
  - Around 0.8 million loyal customers in our Pharmacy and Distribution business, with an advantage of cross-selling

Long-term high-growth opportunities

- Low base: Georgia with low per capita expenditure on healthcare – US$308[4], and with only 3.7 outpatient encounters per capita annually[5], has a vast potential for further growth.
- Supported by an attractive macro environment: one of the fastest-growing countries in Eastern Europe, Georgia is an open and easy emerging market to do business in[6]. Georgia's real GDP growth averaged 4.7% annually in 2011-2019. c.8% of GDP is spent on healthcare, and spending rose at 11.5% compound annual growth rate ("CAGR") between 2000 and 2014[7]; Government spending more than doubled from 2011 to 2017[8].
- Implying long-term, high-growth expansion that is driven by:
  - UHC
  - Pick-up in polyclinics, outpatient market
  - Adding new services
  - Developing medical tourism
  - Developing new markets (beauty, aesthetics, lab retail)

Strong management with proven track record

- Strong business management team – an increased market share by beds from under 1% in 2009 to 23% currently by building a modern infrastructure. Entered the pharmacy and distribution market in 2016, where GHG holds c.32% market share currently.
- Robust corporate governance: exceptional in Georgia's healthcare sector, as it is the only Premium Listed company in the Georgian healthcare industry (LSE: GHG LN)[9]; 71% of our shares are owned by Georgia Capital PLC (LSE: CGEO LN) – a UK listed holding company of a diversified group of companies following completion of its demerger from BGEO Group PLC on 29 May 2018. The rest of the shares are owned by institutional investors and by our management as part of the Employee Stock Ownership Plan ("ESOP").
- In-depth knowledge of the local market.

1 National Center for Disease Control and Public Health ("NCDC") data as of December 2018, updated by GHG to include the changes before 31 December 2019.
2 Total market size – Frost & Sullivan analysis; revenue distribution between competitors is based on the management's estimates.
3 Market share by gross revenue as of September 2019; Insurance State Supervision Service of Georgia ("ISSSA").
4 World Bank.
5 NCDC Statistical Yearbook of Georgia 2018.
6 Ranked number seven in World Bank's 2020 "Ease of Doing Business Report", ahead of all its neighbouring countries and several EU countries.
7 Frost & Sullivan analysis.
8 Ministry of Finance.
9 GHG Group PLC successfully completed its Initial Public Offering (IPO) of ordinary shares on the Premium Segment of the LSE on 12 November 2015.

Chair's Statement

GHG has a mission that is inherently inspiring to all of us – to make significant improvement in the health of the four million people who live in Georgia.

Fellow Shareholders,

I, on behalf of all of my colleagues on your Board of Directors, will start with a thank you to the management team, led by Nick Gamkrelidze, and all c.16,000 of our employees for what has been a remarkable year. I will also thank you, our owners, for your continued confidence in the performance and potential of GHG, your long-term commitment has been an important foundation for the Company.

GHG has a mission that is inherently inspiring to all of us – to make significant improvement in the health of the four million people who live in Georgia. We have a unique position from which to deliver improved primary and preventive care, better access to medicines, high-quality inpatient and ambulatory treatment, and comprehensive health insurance choices. Accomplishing this, while earning fair returns for our owners (a group which counts among it our business and clinical leaders and board members), is energising to us all.

The economic fundamentals of Georgia, the most prosperous country in the Caucasus region, remain strong, with estimated GDP growth of 5.1% in 2019. The country's macro performance will most likely be affected by the evolving global pandemic. The country seems to be, as of this writing, mounting an effective response. However, the pandemic will likely reduce Georgia's growth expectations, though the country is well-positioned macroeconomically to absorb the potential impact.

The overall legislative direction and regulatory infrastructure remains supportive of continued modernisation of the healthcare system – a modernisation of which GHG is proud to be a leader. The country remains an attractive place in which to do business, rating high on measures of the rule of law and absence of corruption. Surveys suggest that the healthcare system is among the better regarded, and we strive at all times to reinforce that with high standards of integrity and continuous innovation to raise the quality of our service to patients and customers. We are also proud of our collaboration with the Government to improve delivery of basic public health services to every citizen of Georgia, and our workforce development activities.

2019 was remarkable for progress against many strategic and operational priorities. I will highlight a few here; they are described more fully throughout this report.

1) Over the past two years, our CEO Nick Gamkrelidze has emphasised the important shift from the capital buildout era, which created a first-class set of human and physical assets/systems, to the operating era, with the harnesses of that network, with continuous improvement of quality, operating and financial performance. During 2019, we made important strides in the quality leadership approach, with the formation of physicians-led clinical boards that are charged with the continuous improvement in quality and clinical performance. Their work is reinforced by quality-related performance metrics that apply to the entire leadership team. Despite reductions in pricing, our margins and ROIC grew, driven by higher operating leverage, continuous improvement of our productivity and management of our supply costs. We generated GEL 125 million in cash from operations (excluding IFRS 16 impact), a solid 26% increase y-o-y.
2) We met important milestones in the phased roll-out of important digital infrastructure, most notably our Electronic Medical Records ("EMR") and our EKIMO platform that delivers to our customers simplified scheduling, reduced wait time, easy payment, and support for treatment compliance.
3) Our existing businesses grew, with new customers attracted by innovative services offerings, including partnerships with leading brands such as The Body Shop, new products, high levels of customer service and a modern, nationwide network of facilities.
4) We expanded our pipeline of new growth businesses, many of which tap new pools of revenue outside of Georgia. Our Mega Lab saw its first full year of operation as the most advanced diagnostic testing facility in the Caucasus region. Expansion of our retail operations to Armenia, the growth of our medical tourism and of our clinical trials business are examples of sizeable profit opportunities that harness our capabilities yet require little capital.
5) We have moved to a business unit management structure that pushes down operating responsibility, supports more nimble response to strategic opportunities, and management systems best matched to each business. It also deepens the development of our future management and clinical leadership pool. Supporting this, our human resources function has implemented a comprehensive succession planning and development programme.

Late in 2019, our Board considered on behalf of shareholders a proposed share exchange facility by our largest shareholder, Georgia Capital. The exchange facility was welcomed by many of you and saw high acceptance levels, with Georgia Capital ultimately increasing its ownership stake from 57.0% to 70.6%. We hope that the increased liquidity, in what remains a thinly traded market, will over the long run close the gap between the equity market valuation of our Company and the intrinsic value of our innovative, growing and highly profitable company. The Board considers the closing of that gap to be one of its highest priorities.

I invite you to read this 2019 Annual Report to learn more about our Company, its performance and its promise.

William (Bill) Huyett
Chair
7 April 2020

Chief Executive Officer's Statement

During 2019, the Group maintained a clear focus on our key strategic objectives, and made good progress in each business segment to deliver earnings momentum, strong cash generation and an improved return on capital invested.

The completion of our major three-year capital expenditure programme has led to significantly reduced investment requirements, and allowed us to start reducing debt levels. This has resulted in net profit and EPS growth, which significantly exceeded the 13% growth in Group revenue and 17% growth in EBITDA. Earnings per share increased by 33% to GEL 0.36, our return on capital invested (excluding newly launched facilities that are in roll-out phase) increased by a percentage point to 14.9%, and the Group's EBITDA to cash conversion ratio reached 81% and resulted in operating cash flow of GEL 125 million.

As we continue to make progress in delivering the strategy of each of our businesses and leveraging the strength of our franchise, we plan to continue to grow our revenue by double-digits while maintaining our high-quality asset base without significant further capital expenditure. In addition, the Group will continue to build out important, profitable new growth opportunities. These include developing medical tourism, creating new retail laboratory diagnostic services, expanding the outpatient clinics and adding new pharmacies and new products. Some of these business initiatives, such as medical tourism and pharmacies in Armenia, tap demand outside Georgia, with insignificant capital commitment, effectively enlarging our market. We will also continue to invest in our exciting IT and digital projects, which are significantly improving not only our efficiency but also our service quality and the customer experience. Together with the continued organic development we expect in our core operations, all this positions us well to grow the business over the medium-term at improved returns on capital, while also increasing operating cash flows.

For comparison purposes, please note that my comments in this statement are based on the results excluding IFRS 16 impact.

The Group. The Group's 2019 results reflect delivery on a number of core initiatives in each business. Gross revenues totalled GEL 963 million, up 13% y-o-y. EBITDA of GEL 154 million represented a 17% increase year on year, and net profit increased by 30% over the same period, to GEL 69 million. The Group net profit, excluding foreign exchange loss and non-recurring expenses, was up 27% y-o-y, to GEL 74 million. Having completed the Group's significant three-year investment programme, we are now seeing the benefits translated into even stronger net profit and earnings per share growth, as well as a solid 26% y-o-y increase in operating cash flow.

Performance was good across all five of our business segments. Our Pharmacy and Distribution business performed particularly well, with 19% revenue growth (14% growth net of the newly added centralised procurement entity) and an EBITDA margin in excess of 10% for the year. Our Clinics business posted 50% EBITDA growth. Results in the Hospitals business are consistently improving as we focus on capacity utilisation, continue to roll-out our two new flagship hospitals and deliver recognised clinical quality. The Medical Insurance business delivered robust revenue growth and a healthy combined ratio of 94%, leading to a net profit increase in excess of 50% y-o-y to GEL 4.5 million.

With inflation in Georgia above its target rate, the National Bank of Georgia ("NBG") tightened the monetary policy and increased the refinancing rate by a total of 250 basis points ("bps") in September-November 2019. This has affected the Group's interest expense, as 75% of GHG borrowings carry a floating interest rate. Our lower borrowings balance (down 7% in 2019 y-o-y) and our Group-wide exercise to reduce borrowing costs will partly offset this. Most notably, in the third quarter, the hospitals segment reduced borrowing costs by refinancing higher cost debt with GEL 50 million in lower cost local currency denominated bonds. These bonds carried the lowest margin (310 bps above the base rate) ever achieved by a corporate borrower in Georgia.

Hospitals business. During 2019, our Hospitals business revenues grew 9% to GEL 291 million. The revenue growth was supported by 58% growth in our two newly launched hospitals, especially at Caucasus Medical Centre where, according to a recently conducted Net Promoter Score ("NPS") survey, the customers' experience and satisfaction reached a score of 77% – a positive outcome for a newly launched facility. The business is also making progress on its medical tourism strategy. Active marketing campaigns and other development initiatives implemented in our five target country markets led to a 37% y-o-y increase in the number of international patients, which led to 2019 revenues of GEL 4.5 million (up 33% y-o-y) from medical tourism. As explained in detail later in this report, however, the 9% revenue growth represented a slowdown in growth momentum caused by Government changes made to the Universal Healthcare Programme ("UHC") reimbursement programme in November 2019, and a temporary delay in issuance of guarantee letters under UHC in the final weeks of 2019 (since reversed) that affected planned treatments. EBITDA nonetheless increased 7% y-o-y to GEL 75 million, and the EBITDA margin was 25.6%. We achieved this result despite our two new flagship hospitals being in their roll-out phase, the impact of the Government measures referred to above, and the cost impact of the new Georgian pension system introduced in early 2019. Excluding the roll-out impact of our two new flagship hospitals, the EBITDA margin was 28.2%.

Chief Executive Officer's Statement continued

Clinics business. Our polyclinic network continues to grow, and the EVEX polyclinics clearly stand out from the competition as new, modern facilities that provide a diverse range of high-quality services in a single location. The number of registered patients continues to grow quarter by quarter, and our polyclinics business became the market leader in Tbilisi by number of registered patients that reached c.193,000 in 2019 (up 47,000 y-o-y). During the year, revenues increased by 16%, with polyclinics growing at 23% and community clinics at 11%, the EBITDA grew by 50% and the EBITDA margin increased from 15.4% to 19.9% over the same period. We will continue to pursue our polyclinics strategy of increasing the client base, supported by the further roll-out of dental clinics and other services, which will allow us to consolidate our position as the largest, highest quality provider in this highly fragmented market.

Pharmacy and Distribution business. Our pharmacy chain and distribution business has been a stand-out performer which delivered record revenues of GEL 615 million, up 19% y-o-y. The balance of the overall revenue growth was contributed by our centralised medicine procurement entity, which was transferred to the GHG Pharmacy and Distribution business in 2019. The business posted 14% organic revenue growth, supported by double-digit organic growth in both the retail and distribution businesses. Our gross profit margin is driven by the scale benefit and increased sales of personal care and beauty products. After introduction of private label para-pharmacy products (personal care, beauty, etc.) in May 2019, which posted c.GEL 1.0 million revenue during the year, we increased our commitment to the beauty retail market by signing a ten-year franchise agreement with The Body Shop, a leading British cosmetics, skin care and perfume company. In December 2019, we launched our first standalone, flagship The Body Shop store in Tbilisi, and started to operate our "shop-in-shop" model presenting The Body Shop stands in our high-end GPC pharmacies. Entering the beauty retail market is an important example of our strategy to develop new growth opportunities and shape new markets. Adding The Body Shop brand to the portfolio upgrades our range of personal care products, contributes to same-store growth and increases margins.

The business continues to deliver positive operating leverage. This is supported by 25% growth in EBITDA and an EBITDA margin that continues to exceed our expectations, increasing by 50 bps y-o-y to 10.6%. This extremely strong performance is substantially above our targeted "more than 9%" margin.

Medical Insurance business. Our Medical Insurance business has made substantial progress over the last 12 months and the business is now contributing meaningfully to the profitability of the Group. Net insurance premiums earned increased by 37% during the year, supported by the addition of a large state client in the first quarter. The combined ratio remained at a healthy 94%, translating into 29% EBITDA and more than 50% net profit growth of the business. More importantly, we continue to improve the proportion of medical insurance services delivered by GHG with 42.5% of medical expense claims retained within the Group, compared to 39.4% last year. We expect this ratio to continue to improve over the next few years.

We did not win the tender in 2020 for the large state client, which will reduce y-o-y Medical Insurance business revenue in 2020 but have an immaterial impact on business' earnings, as the loss ratio for the client was far above the average for the business.

Diagnostics business. In December 2018, we completed the construction and opened Mega Lab, the largest diagnostics laboratory in Georgia and the Caucasus region. The diagnostics business is already delivering break-even EBITDA, with costs of our lab services to the Group's healthcare facilities having been maintained at the same level. Over 670,000 tests were performed during 2019 for 277,000 patients – a significant achievement for a start-up facility.

In line with our strategy as discussed at our June 2019 Investor Day, we have started to develop lab retail and have already opened ten blood collection points in our GPC pharmacies, serving c.1,800 customers and performing c.3,500 tests, with the plan to have c.50 blood collection points over the next few years. The business will also work on additional external contracts, serving healthcare facilities outside the Group.

Clinical quality. Clinical quality in our hospitals, clinics and polyclinics continues as a major focus for the three businesses, as we continue our mission to lead a sea change in clinical quality in Georgia. Recently internally established clinical boards and clinical KPI monitoring are bringing quality standards in our healthcare facilities towards international benchmarks. Our Sepsis Recognition and Treatment Campaign, created and rolled out by our clinical team in 2019, is an example of an initiative targeting our most important quality opportunities. As a result of this campaign, which included staff training and implementation of new sepsis guidelines in our healthcare facilities, our diagnosis and treatment effectiveness improved significantly.

IT development. Our focus in IT development is on projects that are crucial to our patient/customer experience and to the performance of our businesses and synergies across the Group. In 2019, we've continued implementation of two revolutionary software initiatives.

First, in the sphere of electronic medical records (EMR), we launched a comprehensive EMR system in all of our polyclinics and community clinics, substituting 100% of the paperwork. We then successfully implemented an electronic medical ordering system in all our referral hospitals (representing c.60% of full EMR functionality). We will be continuing the roll-out of EMR in our hospitals in 2020.

Second, at the end of 2019, we launched our innovative new digital consumer health platform "EKIMO". Version 1.0 already consolidates the entire vertical spectrum of primary care in the country (primary care doctors and clinics, diagnostics, pharmacies, medical insurance and more), and is open to any local healthcare provider. With this initiative we are well on the way to achieving the Group's mission of building and providing a consolidated, patient-centric customer journey for the country's entire healthcare ecosystem, thereby improving the quality of healthcare and the value proposition for our patients and customers.

Investing in people development. We continue various training and development programmes for our employees to help them contribute to better clinical quality and financial performance through personal and professional development. A key objective of the Group is to invest in the next generation of doctors, and position ourselves as the employer of choice. During the year, we spent a total of GEL 4 million on talent development. Our "GHG Leadership Programme" is one of the most popular leadership courses among our employees, and over 200 middle-level managers are engaged in the programme to improve their leadership and managerial skills.

The year 2019 was outstanding for our GHG medical residency programme. The programme is post-graduate preparation for the next generation of doctors and facilitates an increase in the number of qualified physicians, and is now established as the most popular post-graduate medical study programme in the country. The GHG residency programme had its first graduates in 2019; of the 44 residents who completed the three-year programme, 30 of the most promising are now employed at GHG facilities. Currently, over 200 talented people remain involved in the programme in 29 different medical fields.

Share exchange facility. In November 2019, Georgia Capital PLC – our majority shareholder which had owned 57% of the Group – announced an opportunity for shareholders of GHG to exchange their shares in the Group for shares in Georgia Capital PLC ("GCAP"). The Board of GHG believed it appropriate for the proposal to be shared with GHG shareholders, and welcomed GCAP's continued confidence in GHG's management and strategy and support for GHG as an independent, listed company and, in particular, GCAP's recognition of the significant progress GHG has made over the last few years. Valid acceptances in respect of 40,894,166 GHG shares were received, which were scaled back by GCAP by 56.25%, in order to avoid an adverse impact on GHG's public listing and index eligibility. On completion of the Exchange Facility, GCAP's shareholding in GHG increased from 57.0% to 70.6%.

The Georgian macroeconomic environment. The Georgian economy continued to deliver robust real growth numbers, estimated at 5.1% for 2019, supported by strong double-digit growth of external demand. Overall tourist numbers continued to increase, despite a reduction in tourists from Russia following the direct flight ban introduced in July 2019. The current account deficit shrank significantly and hit an estimated historically low level of 4.4% in 2019, reflecting improvement in net exports and robust FX inflows. While the impact of the reduced number of Russian tourists on the economy has been small, the negative expectations created by the flight ban partly explain the 7.0% depreciation of the GEL vs US Dollar exchange rate since 20 June 2019, before strengthening in December and early 2020. The GEL depreciation in turn had an impact on headline inflation, which increased to 7.0% in December 2019. To curb this inflation, the National Bank of Georgia increased the monetary policy rate from 6.5% to 9.0% in the second half of 2019. Overall, we expect further macroeconomic growth over the next few years to support further growth in the Georgian healthcare services market.

At the time of writing this report, the evolving issue of Coronavirus (COVID-19) is being considered by the management team and Board. There will almost certainly be a reduction in Georgian GDP growths expectations in 2020, but the country is well-positioned macroeconomically to absorb the potential impact.

COVID-19 pandemic. As the largest healthcare provider in the country, we realise our responsibility within Georgia to combat the COVID-19 global pandemic, and have developed a significant Group-wide action plan. In the event of significant COVID-19 virus outbreak and in case of need, we have announced our readiness to isolate four hospitals across the country with appropriately trained staff, isolated wards and intensive and critical care units, thus avoiding the potential for the virus to spread to other hospitals. Employees of our hospitals and clinics have been given comprehensive training and general guidelines, including how to manage patient flow, based on the Georgian National Center for Disease Control and Public Health ("NCDC") recommendations. We have put contingency plans in place for our business units, such as the Hospitals business, Pharmacy and Distribution business, and our central warehouse. We are also closely monitoring and managing our stock level, to ensure that we have enough medicines and major consumables in the country in the case of a significant virus outbreak. We are in constant contact with the Georgian NCDC and Ministry of Labour, Health and Social Affairs and are awaiting further instructions, should additional activities become necessary.

Dividend distribution. Given the current level of uncertainty with regard to the global impact of COVID-19, the Board of Directors has decided not to recommend a dividend to shareholders at the 2020 Annual General Meeting at this stage, as announced in the 2019 preliminary results on 24 February 2020. When the full economic impact of the COVID-19 pandemic is better understood, the Board will consider the appropriate level. We will provide a further update with the announcement of the Group's first quarter of 2020 results in May.

During 2019, our businesses have continued to deliver on key clinical, quality and financial priorities. The significant investment programme of the last few years continues to be well-reflected in business performance. We have made good progress in our balance sheet management objectives to improve ROIC, cash flows, pay down debt to reduce interest costs, and therefore grow earnings more strongly than revenue and EBITDA. We expect these trends to continue, further focusing on our businesses' operational performance, financial performance and capital allocation strategy, while business organic growth together with new projects, such as beauty, aesthetics and lab retail, will enable us to deliver significant growth momentum over the next few years.

Nikoloz Gamkrelidze,
CEO of Georgia Healthcare Group PLC
7 April 2020

This Strategic Report, set out on pages 2 to 69, was approved by the Board of Directors on 7 April 2020 and signed on its behalf by Nikoloz Gamkrelidze, Chief Executive Officer.

Nikoloz Gamkrelidze,
Chief Executive Officer
7 April 2020

Our Business Model

We deliver on our commitment to providing quality healthcare services and products through our five business lines: Hospitals, Clinics, Pharmacy and Distribution, Medical Insurance, and Diagnostics. Our well-established network of hospitals and clinics allows a seamless patient treatment pathway from local doctors to multi-profile hospitals and pharmacies, while the Medical Insurance business plays a feeder role in originating and directing patients.

Each business line has its own Chief Operating Officer reporting to the Group CEO. Their largely independent management teams efficiently drive the businesses towards their strategic priorities, pursuing value creation through revenue and profit growth, and asset productivity.

A fully integrated care pathway

In our highly integrated business model, GHG clinics are often the first point of interaction for attracting patients. The patients who come to our clinics can be referred to our hospitals for treatment or to our pharmacies to fill their prescriptions, if necessary. In the healthcare services business, our clinics and hospitals are organised in specific geographical clusters to provide medical services and high-quality care to the largest range of patients through:

- polyclinics – offering outpatient services;
- community clinics – offering broader outpatient services and a limited range of inpatient healthcare services; and
- referral hospitals – offering a comprehensive range of complex inpatient and specialist services.

The referral hierarchy within each geographical cluster provides patients with a complete and convenient treatment pathway, from local physicians in polyclinics and community clinics to referral hospitals. Our 86 specialist ambulances help achieve this by facilitating the movement of patients to and between our hospitals. While we provide basic ("primary") medical and surgical procedures at all our facilities, the majority of more specialised or advanced ("secondary" and "tertiary") interventional and surgical procedures are concentrated in our regional referral hospitals.

Our Pharmacy and Distribution business reinforces our strategic goal of having a greater presence across the healthcare ecosystem. Capitalisation on our strong customer loyalty programme and a huge volume of traffic to our pharmacies, help us to develop a lab retail network. We have already opened ten blood collection points in our pharmacies, and plan to continue the process to arrive at c.50 blood collection points in the coming years.

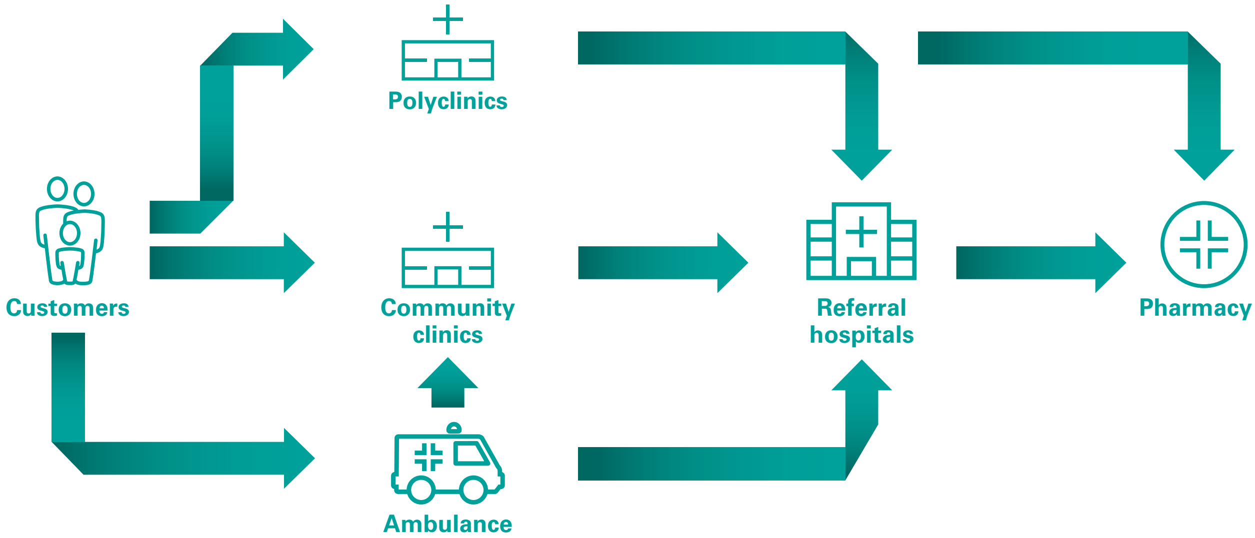
The e-prescription system, implemented in our pharmacies and polyclinics, also drives additional traffic from our polyclinics to GHG pharmacies, 21 of which are located within our healthcare facilities, ensuring better customer experience.

Our Medical Insurance business also plays a feeder role in originating and directing patient traffic to our healthcare facilities. The customers insured by us may also use the services of competitor healthcare facilities. However, we are pleased to see so many patients go for the high-quality services in our outpatient network polyclinics despite having a free choice of providers. The convenience of directly settled claims and co-payment incentives are another reason why our insurance customers prefer to use GHG's hospitals and polyclinics. Our clinics are directly paid by our Medical Insurance business, while patients must pay for and seek reimbursement for most medical care provided by other healthcare facilities.

Our Pharmacy and Distribution and Medical Insurance businesses are synergistic through cross-sales, consolidated discounts and an increasing claims retention ratio within the Group.

Our newly added Diagnostics business is an important separate business line for the Group. We have completed the process of centralising the Group's internal lab demand by collecting samples from the Group's hospitals and polyclinics throughout Georgia. Test results are distributed electronically to each hospital and polyclinic within the Group through the internal Laboratory Information Management System ("LIMS"), enabling us to be more efficient and provide a reliable service to our patients, while keeping the test costs low.

Customer pathway



Hospitals business

18
Number of hospitals

2,967
Number of beds

61.3%[1]
Bed occupancy rate

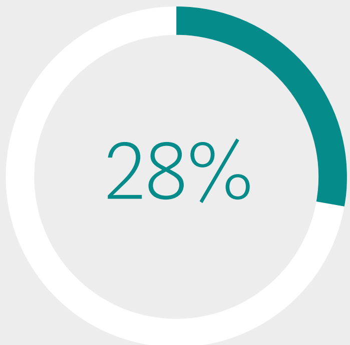
c.GEL 100,000
Average revenue per bed

GHG Hospitals business is the largest healthcare services provider in the country, with 21% market share by referral beds.

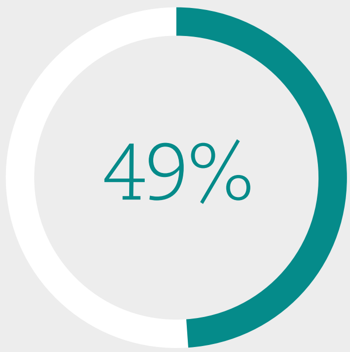
The business operates 18 referral hospitals, 16 of which are general hospitals and two are speciality hospitals, with a total of 2,967 beds. These hospitals are located in Tbilisi and major regional cities, and provide secondary or tertiary- level outpatient and inpatient diagnostic, surgical and treatment services.

In 2017 and 2018, the business launched two flagship hospitals, Tbilisi Referral Hospital (TRH)[2] and Caucasus Medical Centre (CMC)[3], completing its hospitals expansion programme announced during the IPO. TRH operates 332 and CMC operates 306 newly renovated beds, where Net Promoter Score (the level of customers' experience and satisfaction) already reached 77%. Both hospitals are located in the capital city and represent the hospitals of choice for high-quality elective medical care country-wide.

Revenue share in total Group revenue



EBITDA share in total Group EBITDA
EBITDA margin 25.6%



1 Excluding newly opened hospitals, CMC and TRH, which are in the roll-out phase.
2 Opened December 2017.
3 Opened March 2018.

Our Business Model continued

Clinics business

34
Number of clinics

353
Number of community clinics beds

c.193,000
Number of registered patients in Tbilisi polyclinics

10
Number of dental cabinets in polyclinics

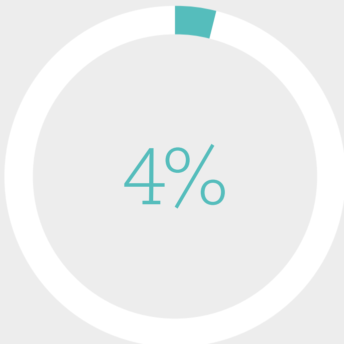
GHG Clinics business incorporates 15 polyclinics and 19 community clinics.

Community clinics are located in regional towns and municipalities, and provide outpatient and inpatient diagnostic, basic surgical and treatment services to the local population. For complicated cases, their primary goal is to stabilise the patient and redirect them to the nearest referral hospital for secondary or tertiary care.

Polyclinics are located in Tbilisi and major regional cities, and provide basic and full-scale outpatient diagnostic and treatment services. By adding c.47,000 patients in 2019, the business became the market leader by number of registered patients in Tbilisi. By the end of 2018, we also entered the dental market and started to launch dental clinics within our polyclinics, the service which fits perfectly into our existing business model.

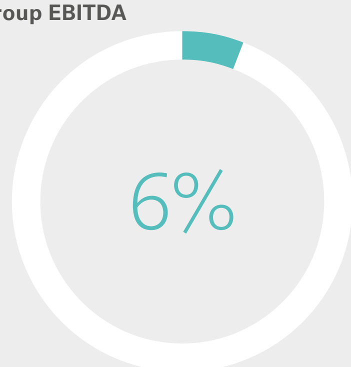
The main priority of the Clinics business remains to further increase the base of registered customers, as our polyclinics represent a first point of customer interaction for our overall business.

Revenue share in total Group revenue



EBITDA share in total Group EBITDA

EBITDA margin 19.9%



Pharmacy and Distribution business

296
Number of pharmacies

c.800,000
Members of the loyalty programme

2.4m
Monthly customer interaction

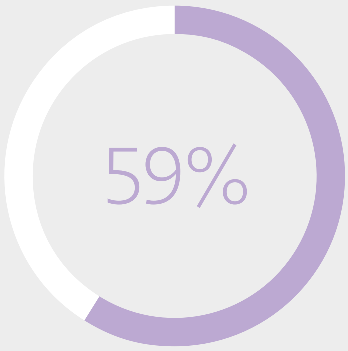
GEL 14.3
Average bill size

We operate two pharmacy brands, each with a distinct positioning; GPC for the high-end customer segment and Pharmadepot for the mass retail segment.

The pharmacies are located in Tbilisi and other major regional cities. The total number of bills issued at our pharmacies reached 29 million in 2019, making us the country's largest retailer in terms of both the revenue and the number of bills issued. Our scale of operations gives us bargaining power over suppliers to extract procurement synergies, reflected in strong margins. Consequently, it allows us to share these synergies with the local population by providing affordable pricing of key products, as well as with other small pharmacy chains through wholesale business. Furthermore, Pharmacy and Distribution is a pure out-of-pocket business, favourably diversifying the Group's revenue stream.

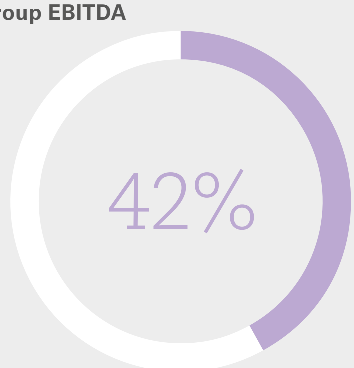
We are constantly working on improvement of the product mix in our pharmacies, and enhancement of our position in the private label segment. In 2019, the business also entered the beauty retail market by signing a franchise agreement with The Body Shop. For more details, please see page 20.

Revenue share in total Group revenue

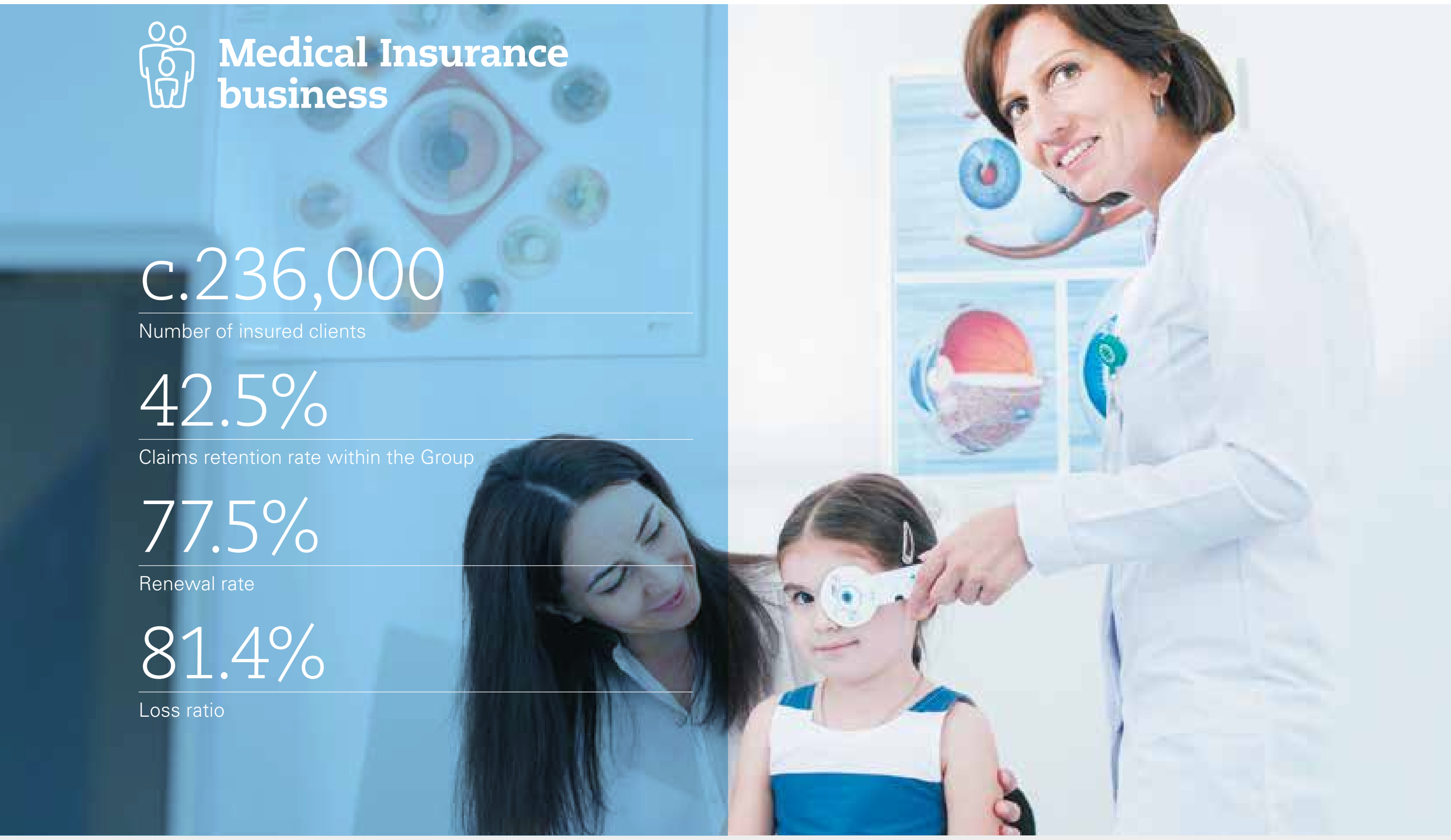


EBITDA share in total Group EBITDA

EBITDA margin 10.6%



Our Business Model continued



Medical Insurance business

c.236,000
Number of insured clients

42.5%
Claims retention rate within the Group

77.5%
Renewal rate

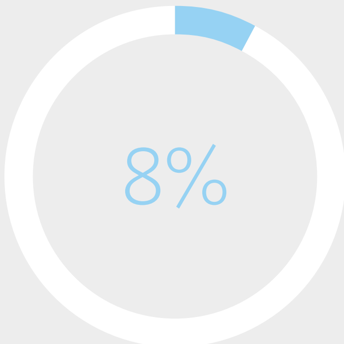
81.4%
Loss ratio

GHG Medical Insurance business offers a variety of medical insurance products, with a wide distribution network to the Georgian population.

We provide a broad range of comprehensive private medical insurance policies that customers can opt for instead of relying on the coverage provided under the UHC and other State-funded healthcare programmes. Our products are mainly offered as corporate packages to large employers. The business plays an important feeder role for our healthcare services and the Pharmacy and Distribution businesses. We operate 12 branches and service centres within our Medical Insurance business, in a number of cities and towns across Georgia.

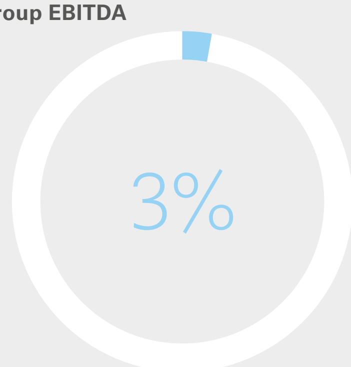
We have been adjusting the business model of our Medical Insurance business since 2013, when the UHC was introduced and transformed the landscape. GHG Medical Insurance business is now the largest private payer in the healthcare sector, securing further growth and significant synergies across the Group.

Revenue share in total Group revenue



EBITDA share in total Group EBITDA

Combined ratio 94.1%



Diagnostics business

277,000
Number of patients served

670,000
Number of tests performed

c.2.4
Average number of tests per patient

10
Number of retail blood collection points in GHG pharmacies

In December 2018, we opened Mega Laboratory ("Mega Lab"), the largest diagnostics laboratory in Georgia and the entire Caucasus region.

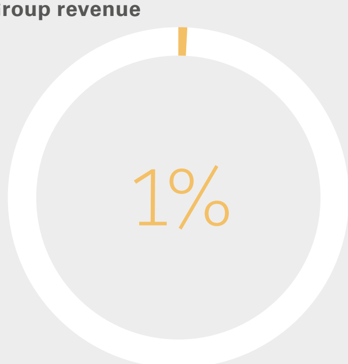
The multi-disciplinary laboratory, equipped with the latest infrastructure and state-of-the-art technology, covers 7,500 m². High-capacity automated systems enable GHG to provide accurate, high-quality results to the entire population of the country. In addition to basic laboratory tests, the new laboratory allows us to offer complex tests for oncology and molecular lab, some of which have never been available in Georgia, and for which blood samples used to be sent abroad.

As the Group's internal demand covers only one-third of the laboratory's capacity, Mega Lab started to develop a retail network through GHG pharmacies, contracting and serving healthcare facilities outside the Group.

The project is supported by our colleagues from Jordan, Biolab, a subsidiary of IDH Group, which has extensive experience in this field.

Laboratory tests introduced in the region for the first time, performed with the latest technologies, include:
Electrophoresis
Flow cytometry
PCR-genetic
PCR-microbiology

Revenue share in total Group revenue



Digital Transformation – Taking Healthcare Beyond Buildings

Moving clinical, commercial and administrative processes from paper to digital, and integrating them with one another, not only increases the efficiency and quality of our healthcare and reduces the cost, but also provides a faster and easier access to all healthcare services and products for everyone.

Taking this as a foundation and building an open, fully integrated and innovative digital healthcare platform for the whole country offers a new development opportunity for the entire healthcare and related services and products, and significantly enhances accessibility of all healthcare segments, from doctors and clinics to insurance and retail pharmacies.

In 2019, the Group's healthcare services business achieved a true breakthrough in terms of digital transformation, with successful implementation of almost all elements of the Healthcare Information System ("HIS") in all its healthcare facilities across the country. Composed of Electronic Medical Records ("EMR"), Inpatient Medical Ordering System ("Ordering"), Picture Archiving and Communication System ("PACS") for radiology, Laboratory Information Management System ("LIMS"), and an administrative module including patient registration, visit bookings, billing, payments and reporting functions. Our HIS, developed fully in-house, is based on the best western practices, allows automation of all major processes, provides decision support for doctors and nurses, and is integrated with all domestic mandatory services required by the State.

The past year has also seen GHG's new initiative for investing in digital innovations in healthcare beyond its core and traditional business lines. As part of this new growth opportunity, the Group successfully launched an innovative, fully integrated digital healthcare platform, involving all components and segments of the healthcare ecosystem: doctors, clinics, laboratories, radiology units, retail pharmacies and medical insurance. The platform, called "EKIMO", is fully independent of GHG's existing businesses and is open for all providers in the country.

"Farewell to Papers" – successful HIS implementation

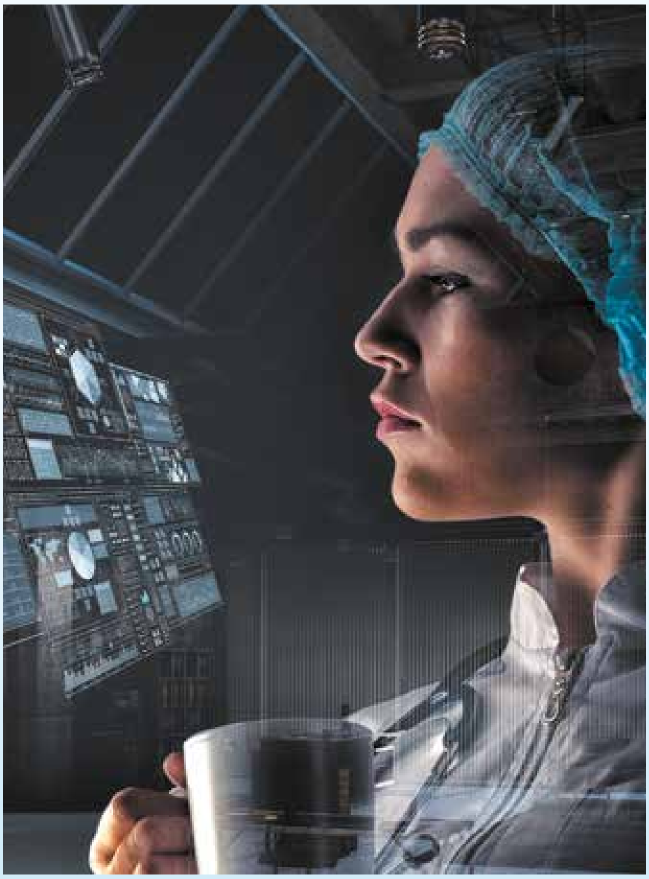
The administrative module of HIS, involving patient registration, visits booking, payments and receivables, billing and medical inventory management, has been implemented in all GHG healthcare facilities since 2016. However, there were no electronic medical records or electronic medical histories of patients, no medical ordering system, no core operating system for doctors and nurses to help them in their daily work, no medical decision support system, no nurse triage or nurse workflow or any other feature of an EMR, either inpatient or outpatient. Our Group has successfully completed the largest software/core operating system implementation in the history of the country, involving EMR and Ordering almost in all its healthcare facilities. A total of c.9,000 users have been trained and successfully transferred from papers to HIS, c.7,500 of which are doctors and nurses, and another c.1,500 are administrative, operations and support personnel.

Outpatient EMR

By full implementation of outpatient EMR, Clinics business has successfully removed 100% of papers in all its 15 polyclinics and 19 community clinics in the country. All doctors and nurses have been trained, and they are now working in EMR.

Implementation of the system goes hand-in-hand with significant improvements in the related clinical and business processes. Outpatient EMR increased the throughput of the existing capacity of clinics by c.40%, on a same-facilities and same-doctors basis. It also allowed elimination of redundant operating expenses.

Inspired by the success of our clinics, outpatient EMR was further implemented in our hospitals' outpatient departments, also substituting 100% of paper in their outpatient business and providing the same, c.40% growth, in the throughput of the existing capacity.



Core benefits of successful implementation of HIS include:

- c.40% increase in the outpatient business throughput;
- increased throughput in inpatient business (the growth number will be estimated for one year after full implementation);
- elimination of human errors that happen while filling out papers manually;
- elimination of the loss of medical data or medical documents;
- reduction of the cost (penalties and charges) related to clinical and regulatory risks;
- reduction of the time required for a comprehensive clinical review of a single medical case, from an average of five hours to an average of 35 minutes;
- real-time record of the results of clinical and administrative work vs previous bulk entry once a week;
- daily financial and operating reports introduced in both inpatient and outpatient businesses;
- elimination of paper and printer costs for medical histories, and reduction of other administrative costs;
- development and effective implementation of clinical quality control functions in each and every hospital; and
- as a result of the above, an increased level of cooperation among doctors and clinics in the entire network, and a significant overall improvement of the healthcare services quality provided by the Group.

Digital Transformation – Taking Healthcare Beyond Buildings continued

Ordering and inpatient EMR

In the first half of 2019, Hospitals business successfully implemented electronic Ordering in all its 18 facilities, eliminating significant paperwork in inpatient departments. All doctors and nurses have been trained, and their respective workflows have been moved from paper to HIS.

In October 2019, the Group finalised development of its full and complete inpatient EMR. This is the most complex and the heaviest component of our HIS. In November 2019, Hospitals business started training its doctors and nurses in all facilities simultaneously. The training consists of theoretical classes as well as on-the-job software training. Currently, we are in the process of rolling out inpatient EMR in our referral hospitals, the last remaining piece of our HIS. Completion of the roll-out is expected during 2020.

Inpatient EMR brings our hospitals services and respective clinical processes to a principally new level, never seen elsewhere in our country before. It substantially improves the quality of our medical care and significantly increases our operational and, therefore, financial efficiency.

PACS

In 2019, we started implementation of PACS for radiologists, developed by a third-party provider. All Tbilisi-based hospitals and polyclinics, both inpatient and outpatient, were successfully connected, integrating more than 100 pieces of radiology equipment including echoscopes, X-Rays, MRIs, CTs, mammograms, etc. Currently, we are rolling it out outside Tbilisi, throughout Georgia, where our hospitals and clinics are.

Implementation of the centralised and fully integrated PACS was a critical step towards the Group's clinical strategy of centralising the radiology services through a central radiology analytical hub located in Tbilisi.

Our PACS is fully integrated with inpatient and outpatient EMR, allowing radiology orders to immediately appear in PACS, and radiologist conclusions and images to immediately appear in EMR, on doctors' screens.

LIMS

2019 was an important year in terms of digital technologies for our Mega Lab as well. Mega Lab successfully implemented a Jordan- originated LIMS called "BioLab". The entire system is Joint Commission International ("JCI") accredited and the whole laboratory process, from inception through to delivery of the final results, is based on the JCI guidelines and requirements. "BioLab" LIMS has been fully integrated with our inpatient and outpatient EMR, ensuring fast and high-quality cooperation between healthcare facilities and the laboratory. All lab orders arising in our healthcare facilities instantly appear in our Mega Lab, while test results are instantly shared back to the healthcare facilities, appearing on the screens of the relevant doctors.

Consolidated Data Warehouse ("CDW")

In 2019, we finalised our first CDW at the Group level, including both personal data of customers and full transactional data from all businesses of the Group. We interact with 3.3 million unique customers on a consolidated basis (90% of the country's population). Well-structured and neatly classified transactional data, aggregated per customer, provides a very powerful tool for achieving our Group's long-term strategy of becoming the largest integrated healthcare player in the region, providing and managing the high-quality journey for each customer throughout the Group. Currently, only 7% of total unique customers interact with all businesses of the Group. Therefore, using the new consolidated data properly to tap into the needs and wants of each customer is an enormous upside for the Group-wide synergies, and for substantially increasing the number of loyal customers at the Group level.

Customer data protection

All personal data of our customers, as well as their medical histories and transactions, are stored in compliance with the requirements of Georgian Legislation. Data privacy standards are followed, and respective controls are being improved regularly. Fences are kept between businesses, so that they cannot access each other's customer data. User access rights within each business are managed daily to define appropriate and authorised access only, for relevant and legitimate business needs.

"Dear Doctor" – that's what EKIMO means in Georgian.

EKIMO – Health at your hand

In December 2019, the Group launched its innovative, independent and fully integrated digital healthcare platform, which combines all components of primary healthcare: doctors, clinics, laboratories, radiology units, retail pharmacies and medical insurance. To give a wider choice to our customers, the platform is open for any healthcare service provider or health product seller in the country, and it is completely free of charge for patients/customers. EKIMO provides quick and easy access to the entire healthcare ecosystem, on an integrated basis, for all individuals and their children. EKIMO is a tool that empowers people to actually manage and become true masters of their own health, as well as the health of their children.

Since its launch, EKIMO has been joined by 483 doctors from 18 different clinics, half of which are independent, third-party clinics. With the broadest range of healthcare service providers and pharmacy products, EKIMO ensures an exceptional, fully integrated experience, and offers unique value to each citizen of our country as well as to foreign visitors arriving in Georgia.

EKIMO takes users on the journey through the entire primary care. Our core quality principle in EKIMO is simple; "No matter how long or short your journey is, it has to be complete".

EKIMO solves the problem of time, healthcare accessibility and freedom of choice, and helps customers to make informed decisions about their own health, thereby significantly increasing the quality of care:

- EKIMO saves time by allowing users to avoid queues and bypass registration procedures to access the doctor's room, the lab or radiology rooms directly, at the booked time.
- EKIMO offers phone or online consultation with a doctor, eliminating the need for travel and saving even more time.
- As a comprehensive eCommerce pharmacy, EKIMO allows users to search and buy any pharmacy product online as a bundle or a separate item directly from e-Prescription or through the search engine. Our medication substitution algorithm is unique in the country. It suggests all the brands of a single medication (of the same generic formula) in order to let customers make an informed buying decision – whether it is an EU or Food and Drug Administration (FDA) approved medicine, the price of the medicine, the producer and the country of production – leaving the final choice up to the customer and decreasing dependency on the brands necessarily prescribed by a doctor.
- EKIMO provides immediate access to the patient's health records, once the visit or the consultation is over, covering all components of the primary care prescription: diagnosis, consultations, manipulations, medication, lab tests and radiology.
- EKIMO allows those who have medical insurance to avoid visiting the insurance company representative each time they need an insurance guarantee letter or an insurance funding consent letter – the entire process of using an insurance policy has been taken completely online, making an insurance guarantee letter or a consent letter an actual payment document and significantly reducing time by eliminating bureaucracy.

2020 will be a significant year for EKIMO, not only in terms of its successful roll-out, but also because we have large-scale healthcare initiatives in store for the whole country that will be implemented through EKIMO. In 2020, we are planning to start a screening campaign for the three most critical diseases: cardiovascular, oncology and diabetes. We intend the importance and value of the screening to be highly publicised and easy for individuals to enrol once they are registered with EKIMO. We are going to use a very simple 10 to 12-question survey for initial risk assessment of users in respect of these three diseases and, depending on the initial risk level, the user will be guided through the entire process, from diagnostics to full treatment and recovery, if diagnosed. Our goal is to help individuals under the risk to detect these three diseases at an early stage and increase their chances for a complete cure. EKIMO places the health of its users at its core and will do its best to serve them as their health pal, providing true and honest care across their entire journey to a healthier life.

So far, we have had more than 16,000 downloads and 9,000 registered users in the system. Our digital marketing campaign gathered a good attraction, with 1.0 million total views and c.30,000 engagements from the customers.

EKIMO

Partner network

- 483 doctors
- 18 clinics
- 297 pharmacies

Entering the Beauty Retail Market – Partnership with The Body Shop

The Group entered the beauty retail industry as part of its recently declared strategy aimed at developing new growth opportunities and shaping new markets.

In 2019, our Pharmacy and Distribution business entered the beauty retail market by signing a franchise agreement with The Body Shop, a leading British cosmetics, skin care and perfume company, thereby obtaining the right to operate The Body Shop in Georgia for an initial term of ten years.

We have already opened two standalone flagship stores in the capital and developed the shop-in-shop model, placing The Body Shop stands in GPC, our high-end retail pharmacy chain. We are planning to operate the shop-in-shop model in c.50 GPC pharmacies, gradually increasing the number to c.100 over the next few years.

Partnering with an internationally recognised brand, capitalising on its knowledge and experience, will increase our Pharmacy and Distribution business brand awareness and the number of its loyal customers, further contributing to our business growth. Adding The Body Shop brand to our portfolio will upgrade our range of personal care products and further enhance our position on the market.

The Body Shop stand in one of our pharmacies.

Becoming part of a truly sustainable business

The Body Shop, a business as a force for good

Founded in 1976 in Brighton, England, by Dame Anita Roddick, The Body Shop is a global beauty brand and a certified B Corp™.

The Body Shop seeks to make a positive difference in the world by offering high-quality, naturally inspired skin care, body care, hair care and make-up, produced ethically and sustainably.

Having pioneered the philosophy that business can be a force for good, this ethos is still the brand's driving force. The Body Shop operates around 3,000 retail locations in more than 70 countries. Along with Aesop, Natura and Avon, The Body Shop is part of Natura & Co, a global, multi-channel and multi-brand cosmetics group, which is committed to generating positive economic, social and environmental impact.

Expanding Our Offering in Medical Tourism

Upgraded infrastructure and medical services, combined with the best-in-class human resources, enables us to give Georgian citizens access to high-quality healthcare without leaving the country and to attract more international patients.

We see medical tourism as a significant opportunity for growth over the next few years. Until recently, Georgia has mainly seen patient outflow; however, recent large investments in upgrading our hospitals infrastructure and building up the quality of our clinical and customer service have enabled the Group to make progress in recapturing the market of domestic patients that historically would have travelled abroad for treatment.

The strategy is mainly to target our neighbouring countries (Azerbaijan, Ukraine, Kazakhstan, Kyrgyzstan and Southern Russia), from where we had the highest number of tourist arrivals in recent years. We offer patients from the target market superior care at affordable prices, benefiting from the absence of a language barrier and visa-free travel.

Since 2017, we have implemented a number of initiatives to raise awareness of our medical facilities throughout the region: we positioned Caucasus Medical Centre as a medical tourism hub hospital; our dedicated medical tourism team visited the target countries, and attended over 35 medical tourism exhibitions and conferences in the last two years; we expanded the international assistance network, which now covers 20 networks in six regions of Georgia; we developed a free medical concierge service; and in cooperation with the country's other hospitals, we founded the Georgian Medical Tourism Council, promoting the country as a medical tourism destination.

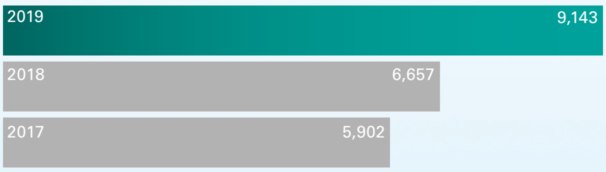
To further promote our strategy and increase our brand awareness internationally, the Hospitals business started cooperation with international organisations and brands. In 2019, the Hospitals business signed a partnership agreement with the Association of Leading Israeli Medical Professors, under which the association member professors, internationally recognised Israeli doctors, will provide their services at GHG's healthcare facilities. The partnership is a unique opportunity for both local and international patients to receive the highest quality treatment at an affordable price.

In 2019, the Hospitals business also attained a premium membership of the International Hospital Federation ("IHF"), which is a global association of healthcare organisations, including hospital associations and representative bodies as well as their members and other healthcare-related organisations. Through this, we have gained access to the global healthcare management community, which provides us with an opportunity to collectively increase our healthcare services business performance through the supporting initiatives provided by the IHF.

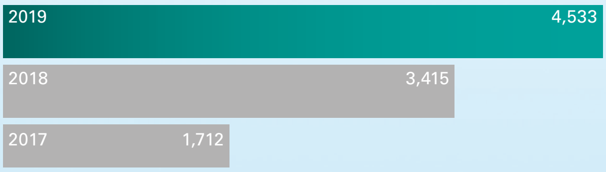
The above initiatives have translated into a growing number of international patients, and the efforts for further growth will continue in the coming years.

We offer patients from the target market superior care at affordable prices, benefiting from the absence of a language barrier and visa-free travel.

Number of international patients dynamic

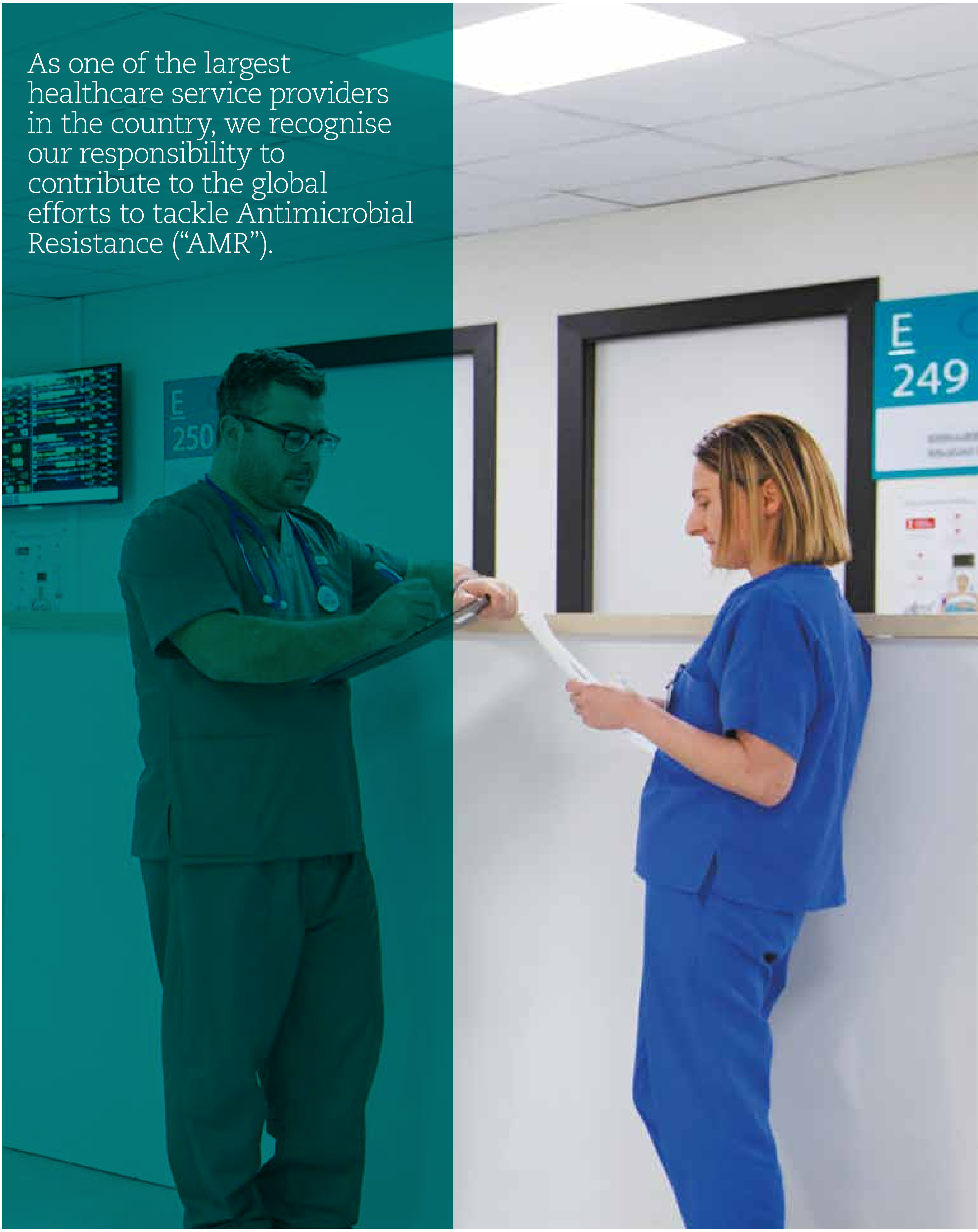


Revenue from international patients dynamic
(GEL thousands)



Antimicrobial Resistance Project – Improving Quality of Care

As one of the largest healthcare service providers in the country, we recognise our responsibility to contribute to the global efforts to tackle Antimicrobial Resistance ("AMR").



Antimicrobial Resistance ("AMR") has emerged as one of the principal public health problems of the 21st century, and is currently among the key global public health threats. The greater the volume of antibiotics used, the greater the chances that the population develops antibiotic-resistance, hindering the ability to treat an ever-increasing range of infections, as well as undermining advancements in medicine. Infections with resistant micro-organisms have been associated with higher mortality and substantial healthcare costs, which puts increasing burdens on healthcare services, resulting in lengthier stays in hospitals and the requirement of more intensive care. The World Health Organization ("WHO") has long recognised the need for a coordinated global effort to contain AMR.

In recent years, Georgia has increased efforts to address AMR in order to meet global guidelines and improve national capacity for surveillance and response measures. In 2014, the Georgian Government introduced a regulation prohibiting the sale of antibiotics without prescription. The e-prescription system has been active since 2016, enabling collection, monitoring and analysis of data on all the prescriptions. On 11 January 2017, the Government of Georgia issued a decree approving the National Strategy for Combating Antimicrobial Resistance. The primary goals of the National Strategy are to promote the rational use of antibiotics, introduce and maintain surveillance of AMR, and improve Infection Prevention and Control ("IPC") practices in healthcare facilities.

As one of the largest healthcare service providers in the country, we recognise our responsibility to contribute to the global efforts to tackle AMR. Recognising the challenges faced in our healthcare facilities, the clinical staff from the head office, as well as at the hospitals, devised a plan with a multi-disciplinary stepwise approach. At the initial stage, we focused on implementation of core elements of Infection Prevention and Control, which is the starting point for further Antibiotic Stewardship activities.

We have developed a three-year IPC programme. In collaboration with the US Center of Disease Control and Prevention ("CDC") representative office in Georgia, our medical staff participated in special IPC training sessions. IPC-trained nurses were based at each hospital and, with the help of our epidemiologists, now supervise the hospitals' infections control and prevention activities. Our staff are also engaged in developing national IPC guidelines and protocols. Intensive Care Units ("ICUs") were identified as the highest risk areas in hospitals, where quality data collection, IPC reporting and feedback systems were implemented.

We started to manage the use of antibiotics through relevant restrictions and authorisations. In each hospital, a clinician is assigned to oversee the prescription of antibiotics and restrict the use of third line antibiotics without the authorisation of a special clinical team. A position of the Chief Pharmacist was created at the head office level, to which a specialist with an internal medicine background was appointed. The Chief Pharmacist, together with the hospital's Chief Clinical Officer and medical personnel, authorise these prescriptions. Apart from IPC reporting, quality teams must collect quality and safety metrics in the ICUs and hospitals mortality dataset. The information related to antibiotics, such as the group of antibiotics, the length of use and the side effects of antibiotics, form part of the quality report.

Our clinical teams from the head office, as well as at the hospitals, analyse the report, including the information on frequently used antibiotics in the ICUs, how long they are used and how often clinicians resort to de-escalation. Based on this analysis, the areas for improvement are identified and relevant steps for actions are defined.

The Group recognised the demand for laboratory support, especially for microbiology experts, and rapid diagnostic tests. Accurate laboratory diagnosis is essential for the rational use of antibiotics. Thus, we ensured that microbiology was an integral part of our newly opened multi-disciplinary laboratory – Mega Lab. Our colleagues from the US CDC Georgian Representative Office and TMC Global Professional Services advised our microbiology lab unit and provided training sessions to our staff. Efforts are being made to improve the quality of microbiology expertise, to integrate a microbiologist in the hospitals' clinical activities and to improve communication means. We are proud to say that previously, before opening Mega Lab, the de-escalation process took around seven days, but now, due to our state-of-the-art equipment, standardised process and highly skilled personnel, the test duration has been reduced to an average of three days.

The Group has also initiated three quality improvement projects related to the use of antibiotics: early sepsis management, surgery care improvement and community-acquired pneumonia management. The goal of these projects was to standardise clinical pathways and improve the quality of care. Within the scope of these projects, clinical protocols, including the antibiotics prophylaxis, were updated and different metrics were set for success measurement. Pocket guides and posters were created and distributed to the hospitals' staff. Training was provided for all key personnel, including clinicians, the IPC team, the laboratory staff and the top management at hospitals. The training sessions, related to proper use of antibiotics, were the cornerstone of the training curriculum.

In 2019, in collaboration with the European Bank for Reconstruction and Development ("EBRD"), we conducted an AMR workshop session. Experts from the UK performed point prevalence research based on the Antibiotic Stewardship audit toolkit. Based on the audit results, we received feedback covering antimicrobial stewardship capacity and capability assessment. Antimicrobical Stewardship ("AMS") awareness among our staff, strong support from leaders, effective link to the quality improvement activities, a formalised IPC system, a functioning microbiology lab infrastructure and commitment to biosafety were defined as key strengths of our healthcare facilities.

The progress made by the Group in the previous years was positively assessed. However, in order to achieve medium to long-term sustainable success, we received a list of recommendations, which we plan to implement step-by-step in our quality and safety system.

Talent Development

After changing the Group's structure in 2019, the strategic role of the Human Resources department at the Group level has been redefined to focus on corporate culture and people development.

GHG Human Capital Strategy

Attracting and developing the very best talent has always been our top priority. All GHG businesses have their own HR teams, mainly concentrated on HR operations, implementation of strategic projects and business partnering. The Group's HR strategy, developed in 2018 together with the HR teams, C-level executives and the Board of Directors, is the main guideline for planning HR activities.

Leadership development

Goal-aware and performance-driven culture

GHG Goals and Core Values

Digital HR

Talent-focused decisions

- Enhancing leadership capacity of our managers and key personnel;
- Continually improving individual and organisational effectiveness through value-added goals and management performance programmes;
- Enhancing HR effectiveness using technology;
- Championing career and professional growth based on the integrated talent management model of the Group; and
- Transforming our corporate culture to create a more efficient climate for our long-term strategic development.

First graduates from GHG residency programme.

In 2019, the GHG Leadership Programme remained on the rise, with voluntary participation up 8% in 2019, reaching 220 participants. The programme focuses on the development of C-level and mid-level managers and is designed to expand the pool of employees with leadership and managerial skills for succession planning. The GHG Leadership Programme participants, who have already undergone different training modules, such as Basic Management Course with the Bank of Georgia University and a 360-feedback Review Programme incorporating one-on-one coaching sessions designed to create a personal development plan, are now able to participate in the GHG Leadership Circle. The GHG Leadership Circle is an in-house version of the 360-feedback software, developed and based on the GHG-Leaders' profile, with around 30 leadership competencies. The first debriefs and personal development plans will take place in the beginning of 2020 for 70 Leadership Programme participants, followed by personal business coaching hours.

After introducing the GHG Leadership Programme, 16% of the participants have already been promoted, 60% of which are female, and 5% have been rotated inside the Group to different positions. All this demonstrates success of the Leadership Programme.

Apart from the GHG Leadership Circle – a 360-feedback tool – in 2019, we completed and launched an E-Testing module in line with our digital HR strategy. Our 750 nurses underwent their annual attestation through the module, saving 106 hours of our HR employees and further contributing to the Group efficiency. In 2020, all businesses of the Group will start developing a different content for the E-Learning module, the same platform, which will achieve synergy in the Group's learning activities.

The 2019 year was outstanding for our medical residency programme – a specialised post-graduate education for the next generation of doctors. The residency programme is under the talent-focused strategic pillar, which serves to transform and enhance the role and competencies of Georgian doctors, retaining and developing best talents. Our residency programme, established as the most popular training programme in the country, had its first graduates in 2019. Forty-four residents completed a three-year GHG residency programme, out of which 30 successful candidates were employed at GHG facilities. Currently, over 200 talented people remain involved in the programme in 29 different medical fields, which improves the quality of postgraduate preparation and facilitates an increase in the number of qualified doctors in the country. From 2020, we decided to award top graduate residents with a six-month internship in our partner hospitals abroad. This year, the top two graduate residents from anaesthesia and critical care programmes will be sent to our partner hospital in Israel to further upskill their competencies.

In 2020, the Group will continue various training programmes for our employees to help them contribute to better business performance through personal and professional growth. This year, we intend to finalise our vision of the C-level succession pool development and create a respective methodology. We will also continue our Leadership Programme and simultaneously introduce several new tools to improve our leadership capacity, with a bigger focus on skills and competencies, such as mentoring, giving feedback and managing conflict. All these programmes will go on to serve as a great platform for talent development, while fostering the culture of teamwork throughout the Group.

GHG residency programme – retaining and developing the best talents in the country.

Industry and Market Overview

Georgia's macro overview

Reform-driven success

Georgia has carried out genuine economic and structural improvements, which have been institutionalised. As a result, corruption has decreased, starting a business has become second easiest in the world, productivity has been enhanced and the economy diversified – enabling the country to withstand global financial crisis and recent external shocks. Georgia is consistently ranked as one of the top performers in governance and Doing Business indicators. Georgia, with a ranking of seventh in Ease of Doing Business, has implemented a total of 47 reforms in the past 15 years and is characterised as the top-performing economy in the region to start a business. Furthermore, Georgia is ranked 12th out of 180 countries by Index of Economic Freedom measured by The Heritage Foundation and is on a par with European Union ("EU") member states, and top in the Eastern Europe and Central Asia Region in Corruption Perception Index by Transparency International 2018.

The key sovereign ratings have improved during 2019: in February 2019, Fitch Ratings upgraded the sovereign credit rating of Georgia from "BB-" to "BB" and maintained a stable outlook; in September 2019, Moody's reaffirmed the "Ba2" rating and stable outlook; and in October 2019, Standard and Poor's upgraded the rating to "BB" and maintained a stable outlook. Resilience to negative external shocks, robust economic growth, shrinking current account (CA) deficit, increasing reserves and decreasing path of general Government debt were the main factors for the rating upgrades.

The Economic Liberty Act, effective since January 2014, ensures the continuation of a credible fiscal and monetary framework for Georgia, by capping the fiscal deficit at 3% of Gross Domestic Product (GDP) and public debt at 60% of GDP. The Economic Liberty Act also requires electorates' approval through a nationwide referendum for imposing new taxes and raising existing tax rates, subject to certain exceptions. Furthermore, as of January 2017, corporate income tax for non-banking and non-insurance corporations is now applicable to only distributed profits; undistributed profits, which are reinvested or retained, are exempt. Georgia has one of the friendliest tax regimes according to Doing Business 2019, having slashed the number of taxes from 21 in 2004 to just six currently.

Georgia is the second country in the world, after Switzerland, with Free Trade Agreements ("FTA") with both the EU and China

The EU-Georgia Association Agreement, which came into force in July 2016, and related Deep and Comprehensive Free Trade Agreement ("DCFTA"), effective since September 2014, lay solid groundwork to improve governance, strengthen the rule of law and provide more economic opportunities by expanding the EU market to Georgian goods and services. Closer economic ties with the EU and trust in prudent policymaking are also expected to attract foreign investments to Georgia. Visa-free travel to the EU, granted to Georgian passport-holders in March 2017, is another major success of the Georgian foreign policy. FTA with China, effective from January 2018, and FTA with Hong Kong, effective from February 2019, increase opportunities to further accelerate exporting markets and to attract investors by offering a business-friendly environment, high governance and access to a market of 2.8 billion customers without customs duties.

IMF Extended Fund Facility ("EFF") programme

The ongoing US$285 million three-year International Monetary Fund ("IMF") Extended Fund Facility programme for Georgia will reduce economic vulnerabilities and promote more inclusive growth. The IMF EFF fully supports the Government's reform programme, focusing on: improving education, investing in infrastructure, making public administration more efficient, and further developing the business environment to boost the private sector as a growth engine. A growth-oriented Government programme (2019-2021) focuses on structural reforms, education and large infrastructure projects to promote Georgia as a transit and tourism hub, and to enhance long-term growth.

One of the fastest-growing economies in the region

Georgia continued to deliver positive results in 2019. It is second in Starting a Business and seventh in Ease of Doing Business globally, according to the latest World Bank Doing Business Report. Based on preliminary data, the economy grew by 5.1% in 2019, with net exports playing a crucial role in strong performance. Merchandise exports increased by more than 12% y-o-y in 2019, while imports have been cut by 1%. Following the positive current account balance in 3Q19, the Current Account ("CA") deficit shrank significantly and, according to National Bank of Georgia's ("NBG") preliminary estimates, hit a historically low level of 4.4% in 2019.

The tourism sector remained stellar with 9.4 million international travellers (up 7.8% in y-o-y) bringing nearly US$3.3 billion in 2019, showing resiliency despite the Russian flight ban. Average inflation in 2019 was 7.0%, above the 3% target. This was mainly caused by inflationary expectations stemming from sustained nominal effective exchange rate (NEER) depreciation that fed into inflation through the exchange rate channel, following a one-off increase in the excise tax rate that also contributed to higher inflation. NBG responded by hiking the monetary policy rate by 250 bps to 9.0% in September-November, and declared that the policy rate will continue to be increased until inflationary expectations are alleviated.

Prior to the worldwide outbreak of the Coronavirus, growth in 2020 was anticipated to remain solid, bolstered by continued growth in tourism revenues, expansionary fiscal policy and persisting external improvements. The new pension system effective from January 2019, ongoing reforms for capital market development and business enhancing measures were expected to further support investments, reinforcing the country's economic potential. IMF expected growth to average at 5.1% annually in 2020-2024, making Georgia the fastest-growing economy in the region. This scenario will clearly be seriously affected by the COVID-19 pandemic. For more information, see Principal Risks and Uncertainties on page 57.

7th

In Ease of Doing Business

47

Reforms implemented in the past 15 years

12th

Out of 180 Countries by Index of Economic Freedom

9.4m

Record high number of international travellers in 2019

Healthcare services market overview

The Georgian healthcare industry has undergone a number of reforms and transformations during the last two decades. The Government has prioritised healthcare and ensured an influx of private investment. The key components of the national healthcare reform were massive privatisation, infrastructure upgrade, sector liberalisation, introduction of the UHC and a wider accessibility to healthcare services as the major outcome. Currently, over 75% of the total nationwide hospital bed capacity is new and, only c.10% is in the public sector.

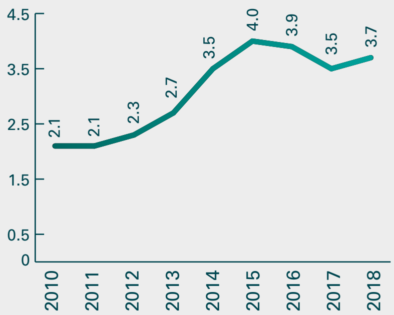
According to the World Health Organization ("WHO"), total health expenditure in Georgia in 2000-2014 demonstrated one of the fastest growth dynamics among the peer group of countries[1] with CAGR at 11.5%. In relative terms, expressed by health expenditure as a percentage of GDP, Georgia achieved the level of major developed economies (c.9%), which is above most of the peer emerging economies.

However, there still remains a vast potential for further increase since Georgia has one of the lowest per capita expenditures on healthcare among the benchmark countries. Healthcare spending per capita is currently at a very low base of only US$308[2], with annual outpatient encounters of 3.7[2] per capita and a hospital bed utilisation rate of only 53%[3], all significantly lower than many comparable countries. Management believes that there are strong prospects for growth in healthcare expenditure, driven by both supply and demand.

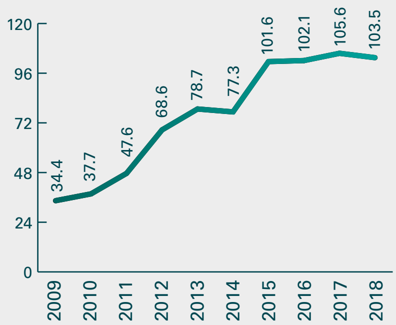
Progress in Georgia in respect of provision of inpatient and outpatient services over the past decade

The number of hospital discharges has increased by 59% since 2008

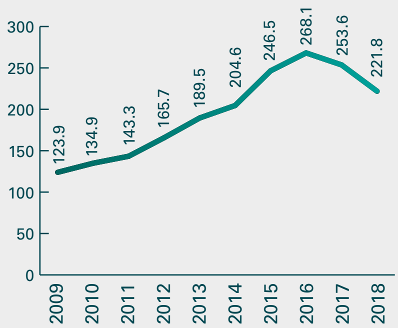
Outpatient visits per capita, Georgia



Number of surgeries in outpatient clinics, Georgia (thousands)



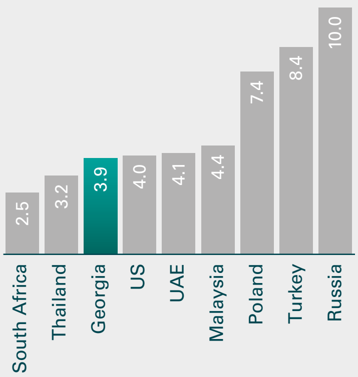
Number of surgeries in hospitals, Georgia



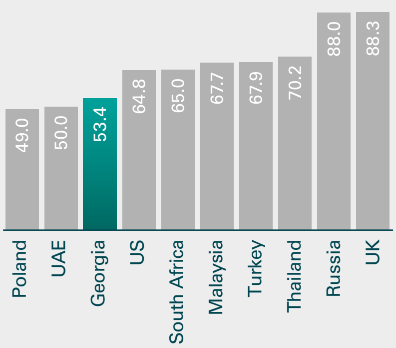
Source: NCDC

Long-term, high-growth prospects

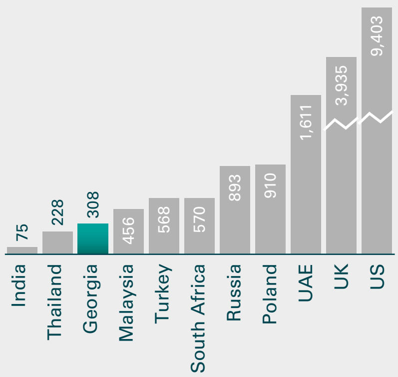
Outpatients visits per capita by country, 2014–2016



Bed occupancy rate by country, 2014–2016 (%)



Per capita expenditures on healthcare by country, 2014–2018



Source: Frost & Sullivan, World Bank, NCDC

1 The peer group of countries (or "benchmark countries") includes both developed and emerging economies: the US, the UK, Poland, Turkey, Russia, the United Arab Emirates (UAE), South Africa, Malaysia, Thailand and India.
2 NCDC 2018.
3 Frost & Sullivan analysis 2017.

Industry and Market Overview continued

Universal Healthcare Programme

UHC, a Government-funded healthcare programme that provides basic healthcare coverage to the entire population, was introduced in March 2013. It eventually replaced the existing two State Insurance Programmes ("SIPs"). UHC is an undertaking by the Government to reimburse healthcare providers directly for the delivery of treatment to patients. The programme is subject to certain limits and service coverage exclusions, beyond which the patients have to fund treatment on an out-of-pocket basis or rely on a private medical insurance coverage.

New UHC-related Government initiatives implemented in 2019

On 5 November 2019, the Georgian Government introduced changes to the UHC reimbursement mechanism, effective from 21 November 2019. The changes mainly cover the Tbilisi and Kutaisi regions, which have recently developed an oversupply of beds as a result of addition of a number of small hospitals in recent years. According to the new initiative, the Government has reduced certain tariffs on intensive care and cardiac services to equate them with the tariffs set for the rest of the regions.

Government healthcare financing

Since the introduction of the UHC Programme, its budget more than doubled from GEL 338 million in 2014 to GEL 754 million in 2019 and totals GEL 757 million in 2020, accounting for c.70% of all state healthcare expenditure. Elective inpatient services and emergency services constitute the major part of the UHC budget, while outpatient services have a limited coverage. The remaining 30% of the state healthcare budget is allocated to vertical healthcare programmes, such as dialysis and cancer screening.

Oversupply of hospital beds

Notwithstanding a significant improvement in the bed occupancy rate, from 30% in 2003 to 53% currently, there is still potential for even higher efficiency in order to align Georgia with best practices (c.70%). The improved efficiency should mainly come from market consolidation. Since 2015, the number of beds in the market has increased to 31% in 2018 (from 10,948 to 14,311). The increase is mainly contributed by the Tbilisi market where more than 1,800 beds were added in the same period (up 31%). The State is developing (slower than anticipated) new legislative initiatives to define hospital types and introduce Key Performance Indicators ("KPIs") for service providers. It is also expected to improve the quality of patient care since only the providers who have enough experience will cater to the population under the UHC. The recent change in UHC (described on page 61) may also drive more rapid market consolidation in Tbilisi and Kutaisi, improving service efficiency and quality in the country.

Polyclinic (outpatient)

The number of outpatient encounters per capita has increased over the past decade from 2.0 in 2007 to 3.7[1] in 2018, but remains still low compared with the EU and the Commonwealth of Independent States ("CIS"), with average encounters of 7.0[2] and 8.9[2], respectively. The outpatient clinics segment remains highly fragmented (with none of GHG's competitors having more than 1% of the market, with the Group's own market share at c.3%) and underdeveloped in Georgia for several reasons. Historically, patients in Georgia have preferred hospitals that are associated with a better reputation and a higher quality of services. The widespread practice of self-treatment and low health awareness also contribute to a lower number of outpatient visits as compared with developed countries. In the next few years, however, the trend may reverse since the Government is aiming to pay more attention to this segment, increase administrative oversight on prescriptions and favour primary care, which is expected to provide a boost for the number of outpatient visits.

Pharma market overview

The Georgian pharmaceutical market is highly dependent on imports. The share of locally produced drugs on the market is 12% as opposed to only 5% in the early 2000s. There are over 90 importers of pharmaceutical products in Georgia, but c.80% of all imports are performed by three companies: GEPHA (c.34-35%), PSP (c.27-28%) and Aversi (c.17-18%). Domestic production is represented by over 20 companies and is dominated by two players, with c.90% of the country's total production volume.

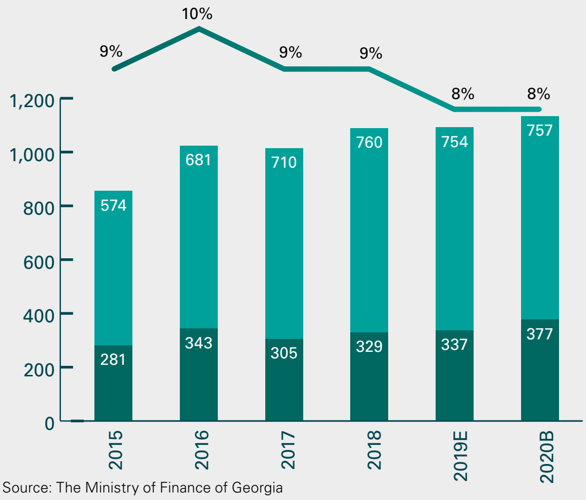
Pharmaceutical market reforms, mainly introducing parallel import and automatically registering the medicines recognised by international control bodies, such as the US Food and Drug Administration ("FDA") and the European Medicines Agency ("EMA"), supported by favourable regimes for setting up pharmacies – 0% VAT on medicines, absence of customs duties and no price controls – have made it possible to create a competitive marketplace in Georgia.

Government healthcare financing

- The country's expenditure on healthcare – c.8% of GDP
- C.40% of the total healthcare expenditure is financed by the State
- Government expenditure on healthcare as a % of GDP reached c.2.5%, from 1.6% in 2013
- Government spending on healthcare accounts for c.8% of the total budget

Source: GHG internal reporting

State financing of healthcare ***(GEL million)***



State healthcare spending – Other
State healthcare spending – UHC
Healthcare spending as a % of the total State spending

Source: The Ministry of Finance of Georgia

1 NCDC.
2 WHO 2014-2015.

The current per capita pharmaceutical expenditure in Georgia stands at US$1071 (excluding para-pharmacy products), which puts Georgia in the middle among the peer group countries. According to market research by Frost & Sullivan, generics account for 61% of the total market revenues, which corresponds to the EU average (c.50%). The market opportunity for generics is still considerable – in the leading economies like Germany and the UK, generics hold a dominant share of more than 80% (in the reimbursed segment).

The Over the Counter ("OTC") segment in Georgia prevailed over the last decade until 2014, when a prescription requirement was introduced for over 6,000 medicines. Now the distribution between OTC and prescription drugs is almost equal.

A new regulation of the Ministry of Labour, Health and Social Affairs of Georgia is to increase administrative oversight on the prescriptions practice, prioritising receipt of the data electronically on the Ministry of Labour, Health and Social Affairs' online platform. GHG is the first to have already implemented and integrated the electronic platform into our existing software.

Medical insurance market overview

Over the past decade, the private medical insurance market expanded significantly compared with the 2006 figure, when only 40,000 Georgian citizens (or c.1% of the total population) had a voluntary medical insurance package, mostly provided as part of a corporate benefits programme. There were c.594,000 Private Health Insurance ("PHI") policies in force by the end of September 2019. The corporate segment accounts for the major portion of the PHI market – 94% of all policies are acquired by employers and the rest (c.37,000) are purchased by self-paying individuals. In Georgia, private health insurance is primarily intended to provide value-added services in the form of more extensive coverage or more convenience for the patient.

Diagnostics market overview

The laboratory and diagnostic services market in Georgia is also highly fragmented. Along with large market players, such as Synevo Medical Laboratory, Cito Medical Centre and European Limbach Diagnostic Group, there are multiple smaller service providers. Moreover, almost every polyclinic (outpatient clinic) and referral hospital runs its own lab facility. Despite such an abundance of labs, the Georgian healthcare system, before the opening of Mega Lab, suffered from a limited provision or outright shortage of certain laboratory services: there were no dedicated high-quality pathology laboratories in the country, the samples for complex lab tests, such as oncology and molecular lab genetics, were and some still are often sent abroad, and there are only a few providers of morphological or bacteriological tests.

Mega Lab, the largest diagnostics laboratory not only in Georgia but in the entire Caucasus region, is the first laboratory offering a full set of clinical and pathology tests, some of which are being introduced in the region for the first time. For more information about Mega Lab, please read page 15.

Healthcare market's revenue structure

Healthcare service providers (both state and private) generate revenue from out-of-pocket payments (including fee-for-service and the UHC co-payments), transfers from state healthcare programmes and payments from private medical insurance companies. Pharma companies' revenue generation is primarily driven by out-of-pocket retail revenue of the pharmacies, together with wholesale revenues from hospitals, insurance companies and the state. Medical insurance companies depend on revenues from medical insurance policies purchased by employers for their employees and by individuals for their own use. Out-of-pocket expenditure on healthcare in Georgia still exceeds public financing and private insurance. The share of out-of-pocket expenditure in total healthcare expenditure in Georgia was 60% in 2017, the share of Government expenditure was 38% and the remaining 2% came from other sources[2].

Outlook and the main growth drivers

According to the forecasts by Frost & Sullivan, the total healthcare market is expected to grow at a compound annual growth rate of 8% from 2018 to 2021. The market is estimated at c.GEL 3.8 billion in 2018 and forecast to reach GEL 4.8 billion by 2021. The outpatient clinic segment is forecast to outpace the total market and grow at a compound annual growth rate of 10% in the same period. The main growth drivers are as follows:

- **Population income growth and rising health awareness.** Economic growth in Georgia is expected to outperform most of the developed and CIS countries – the IMF forecasts annual average real GDP growth in Georgia at 5.2% in 2020-2024 and per capita GDP is expected to surpass US$6,000 in 2023, the

Key principles of the UHC programme

Overview	• The UHC was introduced in February 2013, replacing most of the previously existing State-funded medical insurance plans. • The main goal was to provide basic healthcare coverage to the entire population.
Financing and top-up mechanism	• The UHC is fully financed by the Government. • The UHC doesn't reimburse 100% of costs in most cases, leaving substantial room for out-of-pocket payments by patients. • The UHC coverage for citizens is based on their income level.
Beneficiaries and providers	• UHC beneficiaries may select any healthcare provider enrolled in the programme. • Actual prices charged to patients by healthcare providers are not regulated by the State. • Any provider, whether private or public, is eligible to participate in the programme.

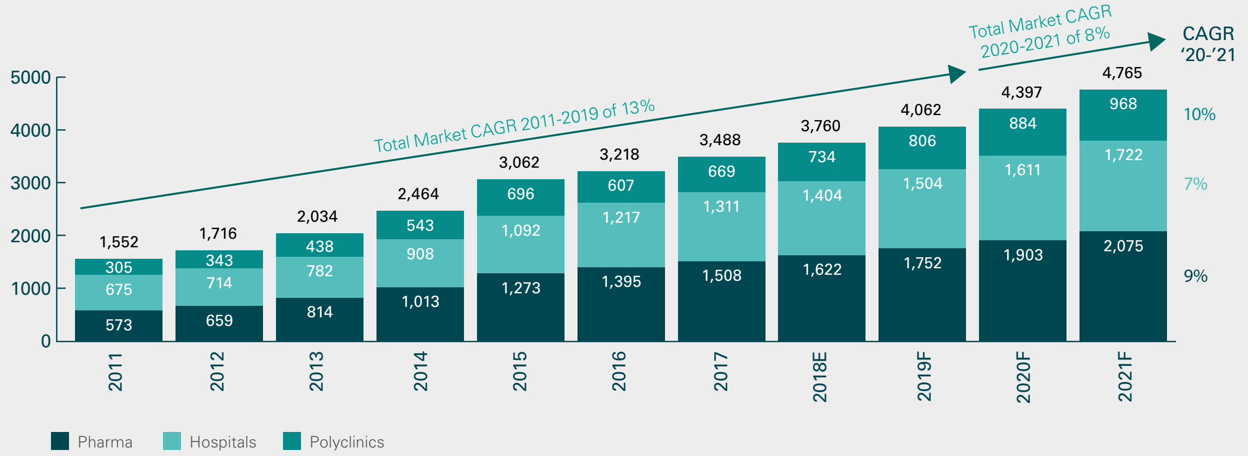
1 Frost & Sullivan analysis 2017.
2 NCDC 2018.

Industry and Market Overview continued

highest in the Caucasus region. Rising population incomes and awareness supported by Government efforts to develop preventive medicine will create growth opportunities for the polyclinic segment.

- **Filling the service gaps – growth of private investment in technology and equipment.** While Georgia has achieved remarkable success in certain fields of healthcare, some areas remain underdeveloped and there are a number of service gaps in the country. Many laboratory tests are still performed abroad. There are two PET/CT scanners in Georgia, while at least four are required to comply with the WHO recommendations. There are also shortages of the following equipment: laparoscopic instruments, equipment for interventional endoscopy, including endoscopic retrograde cholangiopancreatography, microwave tissue ablation systems, arthroscopes, choledocoscopes, muscle reinnervation systems, intraoperative ultrasound probes, vacuum machines, Flowtron mechanical compression units, pH metre units, and intraoperative neurophysiology and navigation systems in neurosurgery. Private investment in high-technology equipment should strengthen local capabilities, increase the number of procedures and improve the quality of care.
- **Growth in the number of outpatient visits.** Georgia lags behind most of the developed countries in terms of the number of outpatient visits per capita. This is partially explained by cultural differences (practices of self-treatment, and distrust of outpatient service providers). However, with growing private investment in this segment, expected market consolidation and Government support, the market will see growth in outpatient visits, which will positively impact the polyclinics' revenues.
- **Growth of hospitalisation rates.** There is at least 15% growth potential in the hospitalisation rate, which is likely to depend on market consolidation, the pace of introduction of new technologies and development of local skills.
- **Supportive Government healthcare policies.** Since its introduction in March 2013, the UHC has made basic healthcare available to the entire population and is expected to maintain increase in demand for medical care, particularly hospital services. The Government budget on healthcare is expected to grow. For 2020, the total healthcare budget is up 4% y-o-y.
- **Growing awareness of the benefits of medical insurance among the Georgian population.** This may lead to a greater demand for private medical insurance from employers and self-paying customers who seek better quality services, quicker treatment or more advanced procedures than those covered within the UHC framework. However, the new Government initiative introduced in 2017 – excluding individuals with annual income of over GEL 40,000 (c.32,000 people) from the UHC coverage and granting only a limited UHC coverage to middle-income citizens, i.e. those with an income of over GEL 1,000 per month but under GEL 40,000 per year (c.400,000 people) – is intended to make the UHC spending more efficient and may potentially expand the private medical insurance market.
- **Strong growth in healthcare expenditure.** On a per capita basis, healthcare spending remains low compared with certain emerging market peers (such as Malaysia and the UAE) pointing to further growth potential. At the same time, economic growth and rising disposable incomes of Georgian citizens, including those living outside the capital city, should also lead to higher spending on pharma and healthcare services, particularly considering the potential increase in the number of corporate medical insurance plans for employees.
- **Demographics.** The country has an ageing population, with an increasing proportion of its citizens aged over 60 (as per the latest UN Population Division data, the share of people aged 60+ in Georgia will increase to 24% by 2025 from 20% in 2015), who will require more frequent, better and prolonged treatments. Increasing incidence of certain lifestyle-related diseases (hypertension, ischemic heart diseases, cerebrovascular diseases, and diabetes) will also boost demand for medical care and medicines. In addition, healthy fertility rates will drive demand for obstetric and childcare services.
- **Development of medical tourism in the medium to long term.** Improving facilities and standards have the potential to develop health tourism by attracting the citizens of the neighbouring countries and, conversely, retaining the Georgians currently seeking treatment overseas in the long run. The country is also highly price competitive compared with other medical tourism destinations and possesses unique natural resources (climate, mineral waters). The number of tourists in Georgia reached a record high of 5.1 million in 2019, up 7% y-o-y. Some potentially attractive segments for medical tourism may be IVF, plastic surgery, ophthalmology, transplantology, orthopaedics and oncology.

Growth in the healthcare market is expected to continue



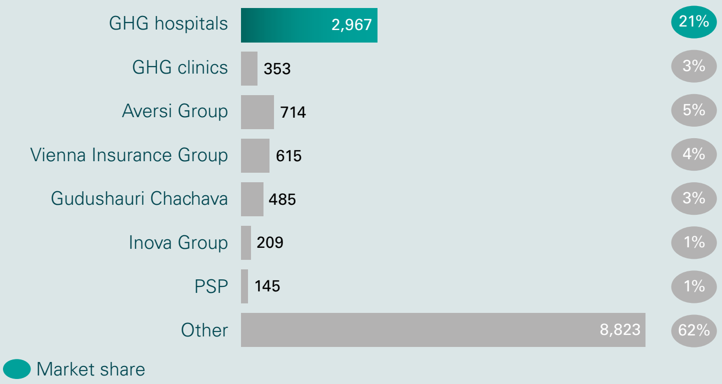
Source:
Frost & Sullivan analysis 2017; Hospitals market includes revenue of c.10% from speciality beds, which is a non-addressable market for GHG; polyclinics' market excludes dental and aesthetic services.

Market Competition

Hospitals and clinics market

Both state and private healthcare providers (clinics and hospitals) compete in the Georgian market, with private providers accounting for the vast majority of the country's total supply. The market is relatively fragmented, with the six largest competitors (all of which are private) accounting for only 37% of the total number of beds in the country. This may indicate further growth potential for both new and incumbent market participants through mergers and acquisitions. The outpatient clinics market is even more fragmented and no competitor controls more than a 1% market share, with the Group's own market share at 3%. Therefore, it is likely that there will be further consolidation and emergence of a large participant in the market via mergers and acquisitions.

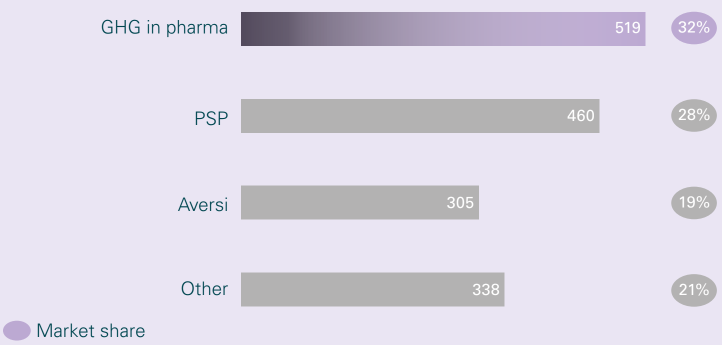
Healthcare services ***(Number of beds as of December 2019)***[1]



Pharma market

The pharmaceutical market in Georgia is highly concentrated, with three major players holding approximately 79% of the market share. Two main competitors in the pharma market are also present in the hospital and medical insurance markets, with much smaller market shares than GHG. GHG, therefore, remains the only large player across all these markets as the competitors have not managed so far to establish scalable businesses in all respective sectors.

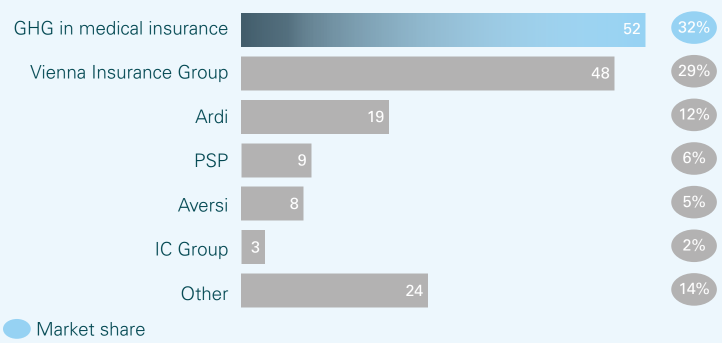
Pharmacy and distribution ***(Revenue, 2018 GEL millions)***[2]



Medical insurance market

As of 30 September 2019, c.594,000 private medical insurance packages have been reported to the Insurance State Supervision Service of Georgia. The Georgian insurance market is represented by 17 companies, 13 of which operate in the health insurance segment. The market is highly concentrated, with the top three companies holding a 73% market share by Gross Premium Revenues ("GPR"). After winning the recent tenders and increasing its client base starting from 2019, our Medical Insurance business gained more than one-third market share by revenue and became the country's largest medical insurer.

Medical insurance ***(Gross premium revenue 9M19, GEL million)***[3]



1 NCDC, data as of December 2018, updated by GHG to include changes before 31 December 2019; excluding speciality beds.
2 Total market Frost & Sullivan analysis 2018; revenue distribution between competitors represents managements estimates.
3 Insurance State Supervision Service of Georgia, as of 30 September 2019.

Performance Against Strategy 2019

The tables below display the performance of our business lines against our 2019 targets.

Georgia Healthcare Group

Growth and return	• Double-digit revenue growth – up 13.3% y-o-y. • Double-digit EBITDA growth – up 16.6% y-o-y. • Increasing operating cash flows – an increase of 25.7% y-o-y with 81.2% EBITDA to cash conversion ratio, up 5.9 ppts y-o-y. • Improved return on invested capital – up 1.7 ppts to 12.7%; adjusted ROIC (excluding newly launched hospitals and polyclinics that are in roll-out phase) up 1.0 ppts to 14.9%.
Software and digital development	• Completed implementation of outpatient EMR. • Completed implementation of medical ordering system in hospitals. • Completed development of inpatient EMR, implementation of which is already started and will be completed in all our hospitals in 2020. • Launched independent, fully integrated digital healthcare platform "EKIMO", which combines all components of the primary healthcare (for more information, please see page 19).
People Development	• Completion and launch of an E-Testing module. • GHG Leadership Programme participants up 8% y-o-y, reaching 220. 16% of the Programme participants have already been promoted. • 44 residents completed a three-year GHG residency programme, out of which 30 successful candidates were employed at GHG facilities. • In 2019, our Learning Centre trained a total of 2,623 nurses (both employees and candidates), 3,208 physicians, 4,000 pharmacist and 518 back office employees and managers, and conducted a six-month 108-hour Basic Nursing Course for students and nursing professionals.

Hospitals business

Improved network utilisation	• Matured hospitals bed occupancy rate – up 50 bps y-o-y. • Newly launched hospitals, CMC and TRH, occupancy rate – up 14.7% and 8.9% y-o-y, respectively.
EBITDA margin of c.28-30%	• Matured hospitals EBITDA margin in 2019 – 28.2%. • Newly launched hospitals, CMC and TRH, delivered double-digit, full year EBITDA margins in 2019.
Medical tourism strategy development	• Rebranded Regional Hospital as Caucasus Medical Centre to position it to medical tourism hub hospital. Commercial team attended over 20 medical tourism exhibitions and conferences, and expanded international assistance network. • Number of international patients – up 37.3% y-o-y. • Revenue from international patients – up 32.7% y-o-y.
Quality improvement projects	• Established clinical boards and clinical KPI monitoring systems in our hospitals. • Rolled out the Sepsis Recognition and Treatment Campaign, which included staff training and implementation of new sepsis guidelines in our healthcare facilities. • Conducted an AMR workshop session covering antimicrobial stewardship capacity and capability assessment.

Clinics business

Growth and expansion	• Double-digit revenue growth – up 15.9% y-o-y. • Polyclinics revenue up 22.6% y-o-y. • The number of registered patients in Tbilisi reached c.193,000, up by c.47,000 patients since December 2018. • Since 2018, added dental cabinets in our five polyclinics.
Efficiency and return	• Positive operating leverage of 16.0 ppts. • The EBITDA margin up 4.5 ppts, reaching 19.9%. • The EBITDA margin for our polyclinics was up 3.1 ppts y-o-y, to 18.8%. We expect EBITDA margin to continue to grow gradually in the coming years.

Pharmacy and Distribution business

Revenue growth and footprint expansion	• Added 26 pharmacies to the network. • Double-digit revenue growth – up 18.5% y-o-y, organic growth[1] 14.0%. • Retail revenue growth – up 14.0% y-o-y, with 9.0% same-store growth rate. • Wholesale revenue growth – up 31.5% y-o-y. Organic growth[1] 14.0%, by signing new corporate accounts and engaging in State programmes.
Margin enhancement	• Gross margin at 25.5% – flat y-o-y. • EBITDA margin up 50 bps at 10.6%, exceeding our updated target of 9%+ (previously 8%+).
New retail categories	• Introduced first para-pharmacy private label products under the brand Attirance, which includes different personal care products in its range. • Signed a ten-year franchise agreement with The Body Shop and opened first flagship store in December 2019.

Medical Insurance business

Profitable business growth	• Double-digit revenue growth – up 36.7% y-o-y. • Double-digit EBITDA growth – up 28.7% y-o-y. • Solid profit growth – up 51.6%, with combined ratio of 94.1% (loss ratio up 4.1 ppts, due to the adding large corporate clients, and expense ratio down 4.1 ppts, y-o-y).
Increased claims retained within the Group	• The total amount of claims retained within the Group increased by 3.1 ppts y-o-y and reached 42.5%. • The total number of claims retained within the Group increased by 37.2 bps y-o-y.
Expansion	• Became the largest medical insurer in the country, with 31.9% market share. • Began participating in the Compulsory Motor Third Party Liability Insurance Programme, effective in the country from 1 March 2018.

Diagnostics business

Successful operational launch and volume development	• Completed the process of centralising the Group's internal lab demand – through collecting samples from the Group's hospitals and polyclinics throughout Georgia. • Developed retail network – opened ten blood collection points in one of our pharmacy chains, and plan to continue the process to arrive at c.50 blood collection points in coming years. • Posting break-even EBITDA in its first year of operation.

1 Excluding sales from "ELG", our centralised medicine procurement entity that was transferred to the GHG Pharmacy and Distribution business wholesale segment in 2019.

Our Strategy

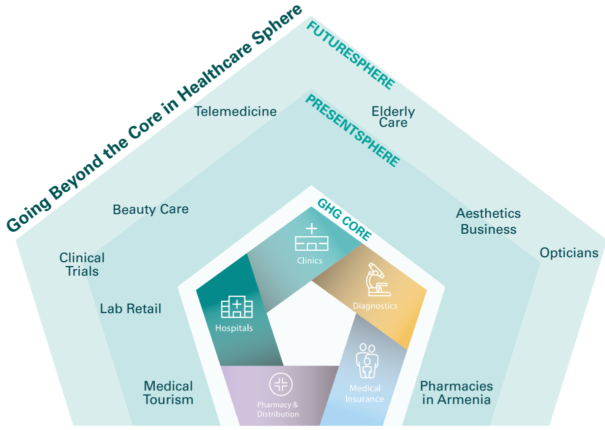
Unlocking the value of an integrated business model

GHG is the only integrated healthcare provider in the region with extraordinary visibility and presence in the entire Georgian healthcare ecosystem. Extracting value from this integration through leveraging on the existing infrastructure, people, competencies and client base, and managing customers on an integrated level will be the main goal for the Group in the coming years.

GHG serves around three million unique customers across its business lines, while the share of the patients using more than one segment of our business, pharmacies and healthcare facilities accounts for only c.7%. One of our long-term growth strategies is to capitalise on the main advantage of our business model – ability to manage customers on an integrated level. Enhancing digital channels and developing a fully cohesive health information system (the "HIS") helps us manage operations more efficiently and deliver better care to our customers.

Having completed our intensive three-year capital expenditure programme, we are now focusing on improving the Group's operational and financial performance, and delivering strong growth by developing new projects and benefiting from the organic growth of our businesses. Going beyond the core of our current operations, and shaping new markets in the Group's related services and products, such as beauty, aesthetics, lab retail and clinical trials, will enable us to deliver significant growth momentum over the next few years. This is clearly supported by the Georgian macro environment, increasing healthcare spending and the existing low base spending on healthcare.

From the operational performance perspective, we are focusing on improving the capacity utilisation of our healthcare facilities, exercising various asset optimisation measures, such as disposal or transformation of unused and low ROIC-generating assets, driving efficiency across our healthcare facilities through service process automatisation and the full roll-out of HIS.



These, together with the Group's improved cash flow generation and disciplined capital allocation strategy, which mainly focuses on balance sheet deleveraging, exercising value accretive minority buyouts and allocating resources to high ROIC-generating investments, will help us to achieve our goal to generate double-digit revenue growth over the coming five years and mid-teens EBITDA growth that is expected to support a 15-17% ROIC in the medium to long term.

From a clinical perspective, we continue to grow a new generation of doctors and nurses, while building robust clinical quality management processes. Our medium-term goals remain knowledge and expertise advancement through education and professional development of our physicians and nurses. Quality assurance through the introduction and improvement of various activities and processes at a larger scale within our healthcare facilities remains a top priority for us so that we can deliver better care to our patients.

GHG strategy

Operational performance

Utilisation
- Bed occupancy rate at c.60.0% currently, still room to grow

Optimisation
- Disposal of unused assets
- Disposal/transforming low ROIC assets

Efficiency
- Automation of service processes
- Full roll-out of HIS

Digitalisation
- Fully integrated health information system to help us manage customers on an integrated level

Financial performance

Cash flow generation
- Higher earnings
- Reduced capital requirements
- Reduced cost of funding

Capital allocation
- Deleveraging
- Minority buyouts
- Capital return
- Investing in new opportunities

Growth pipeline

Business organic growth
- Supportive macro environment
- Growing healthcare spending
- Low base on healthcare
- Increasing penetration

Growth projects – shaping new markets, such as:
- Medical tourism
- Lab retail
- Aesthetic
- Clinical trials

Businesses' major growth drivers

Referral hospitals	Clinics & polyclinics	Pharmacy & Distribution	Medical Insurance	Diagnostics
Organic growth of matured hospitals in line with the market	Increasing the number of registered patients	Expanding retail footprint	Growing the number of insured clients	Building an effective logistics system for the Group's healthcare facilities
Successful ramp-up of newly launched hospitals	Increasing Group referrals	Enhancing retail margin (private label products)	Enhancing gross profit through the introduction of "fee business" (such as motor Casco distribution, motor Third Party Liability distribution)	Develop a retail network
Supporting growth pillars (such as medical tourism and clinical trials)	Adding new services (such as dental and aesthetic)	New retail categories (such as lab service and beauty)		Attracting B2B clients
Forming joint ventures in synergetic businesses	Digitalisation	Growing wholesale revenue (such as hospital supplies)	Increasing retention rates within the Group	Digital channels
Digitalisation		Digital channels		

Inter-group synergies
Managing customers on an integrated level

GHG and its business medium to long-term Profit and Loss Statement targets

Referral hospitals	Clinics & polyclinics	Pharmacy & Distribution	Medical Insurance
Double-digit revenue CAGR	Double-digit revenue CAGR – 20%+	Double-digit revenue CAGR	Increased contribution to the Group segments
Gradually improving to 28-30% EBITDA margin	Gradually improving to 25%+ EBITDA margin	9%+ EBITDA margin	Combined ratio <97%

GHG medium to long-term targets

Double-digit revenue CAGR next five years

Mid-teen EBITDA CAGR next five years

Gradually approaching ROIC c.15%-17%

Key Performance Indicators

Value creation performance metrics

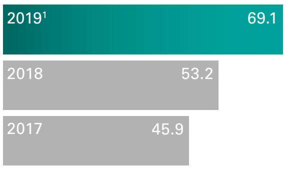
Return KPIs

The margins in all our businesses are a function of our scale, reflecting the procurement and cross-sale synergies, and the utilisation level of our healthcare facilities in Tbilisi. The repriced portfolio of our Medical Insurance business and improved cost efficiency Group-wide, while our two flagship hospitals remain in their roll-out phase, translated into a 29.8% growth in profit, excluding IFRS 16 impact.

Profit (GEL million)

69.1[1]

+29.8% y-o-y



Profit represents revenue less cost of goods sold and operating expenses, net of non-recurring expenses and taxes.

Gross profit margin (%)

31.9%[1]

+0.3 ppts y-o-y

Gross margin is defined as gross profit divided by gross revenue.

Hospitals business EBITDA margin (%)

25.6[1]

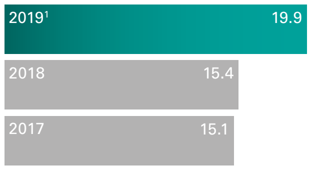
-0.5 ppts y-o-y

Hospitals EBITDA margin is calculated as EBITDA divided by revenue, gross of corrections and rebates.

Clinics business EBITDA margin (%)

19.9%[1]

+4.5 ppts y-o-y



Clinics EBITDA margin is calculated as EBITDA divided by revenue, gross of corrections and rebates.

Pharmacy and Distribution business EBITDA margin (%)

10.6[1]

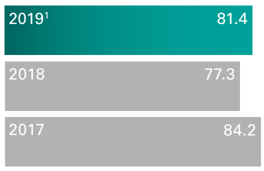
+0.5 ppts y-o-y

Pharmacy and Distribution EBITDA margin is calculated as EBITDA divided by revenue.

Medical Insurance business loss ratio (%)

81.4%[1]

+4.1 ppts y-o-y

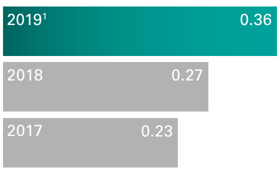


Loss ratio is calculated as net insurance claims divided by net insurance revenue.

Earnings per share (EPS) (GEL)

0.36[1]

+33.4% y-o-y



EPS is calculated as profit attributable to shareholders divided by the weighted average number of outstanding shares.

Return on Invested Capital (%) (adjusted)[2]

14.9%[1]

+1.0 ppts y-o-y

ROIC is calculated as EBITDA minus depreciation, plus interest income divided by the aggregate amount of total equity and borrowed funds.

Growth KPIs

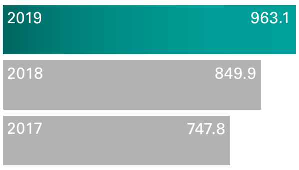
Our main growth drivers in 2019 were a rising number of pharmacies, further progress of our facilities towards their targeted utilisation, enhanced medical services and product mix, the successful expansion strategy of our Medical Insurance business and the launch of the Diagnostics business by opening Mega Lab. In 2020 and beyond, we will continue to focus on profitable revenue growth. We expect the increase mainly through organic growth driven: by the completion of the roll-out of newly opened hospitals, and by increasing our share in the fast-growing, highly fragmented and under-penetrated outpatient market; by developing new medical services and medical tourism, as well as new supportive growth projects such as beauty retail and aesthetics; by continuing to lead the market in terms of the quality of our medical care; by strengthening our pharma presence through new launches and adding more private label products in the range; by expanding our Medical Insurance and Diagnostics businesses, and developing a retail lab (please see more in the Our Strategy section of this Report, on page 36.

1 Excluding IFRS 16 impact.
2 Return on invested capital adjusted to exclude newly launched hospitals and polyclinics that are in the roll-out phase.

Revenue (GEL million)[1]

963.1

+13.3% y-o-y

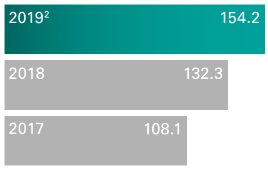


Revenue comprises Hospitals, Pharmacy and Distribution, Clinics and Diagnostics businesses revenue, plus net insurance premiums earned from Medical Insurance business.

EBITDA (GEL million)

154.2[2]

+16.6% y-o-y



EBITDA is defined as earnings before interest, taxes, depreciation and amortisation, and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation; interest income; interest expense; net losses from foreign currencies; and net non-recurring (expense)/income.

Number of hospital beds

3,320

+0 y-o-y

Represents the number of existing inpatient beds in referral hospitals and community clinics.

Number of clinics

34

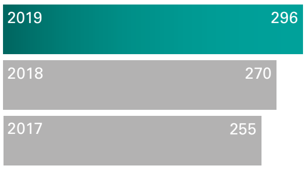
-1 y-o-y

Represents the number of existing polyclinics and community clinics in Tbilisi and other regions.

Number of pharmacies

296

+26 y-o-y

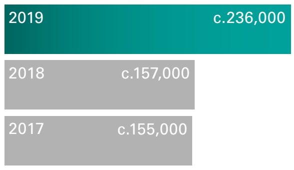


Represents the number of existing pharmacies in Tbilisi and other regions.

Number of insured

c.236,000

+c.78,000 y-o-y



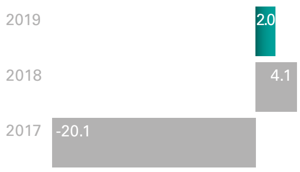
Represents the number of policyholders comprising both corporate and retail customers but excluding insured travellers.

Efficiency KPIs

The combined effect of the consolidated purchasing power of the Hospitals, Clinics and Pharmacy and Distribution businesses, well-managed efficiency and cost control measures, diversified revenue sources and the stabilised Medical Insurance business are the major contributors to the Group's positive operating leverage of 2.0% in 2019, y-o-y. Going forward, our focus will remain to drive efficiency across the Group. Apart from cost control measures, which we will continue to deploy across the board, our investments in IT – including the roll-out of HIS and EMR in our healthcare facilities and building an integrated healthcare platform – are designed to significantly streamline and optimise the workflow processes within our businesses.

Operating leverage (%)[2]

2.0%

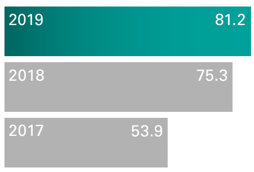


Calculated as the difference between percentage increase in gross profit and percentage increase in total operating costs.

EBITDA to cash conversion (%)[2]

81.2%

+5.9 ppts y-o-y

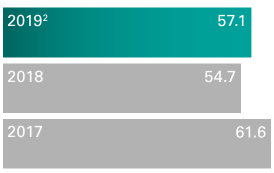


Calculated as operating cash flow divided by EBITDA.

Referral hospital bed occupancy rate (%)

57.1%

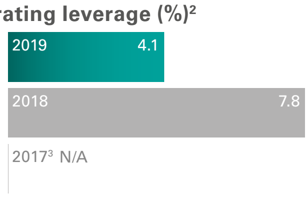
+2.4 ppts y-o-y



Calculated by dividing the number of total referral inpatient nights by the number of referral bed days (number of referral days multiplied by the number of referral beds) available during the year.

Pharmacy and Distribution operating leverage (%)[2]

4.1%



Calculated as the difference between the percentage increase in gross profit and percentage increase in total operating costs.

1 The amount represents gross revenue before corrections and rebates (see Financial Statements, Note 3). Revenue net of corrections and rebates was GEL 960.6 million in 2019 (2018: GEL 846.3 million, 2017: GEL 745.7 million).
2 Excluding IFRS 16 impact.
3 We entered the Pharmacy and Distribution business in May 2016 and expanded in January 2017, thus we do not show comparisons with prior periods.

Resources and Responsibilities

Improving the quality of healthcare in Georgia and delivering excellent and consistent standards of care to our patients is central to our mission and our purpose.

Non-Financial Information Statement

This section of the Strategic Report constitutes the Group's Non-Financial Information Statement, in accordance with sections 414CA and 414CB of the Companies Act. The information to be disclosed under section 414CB has been included below, with the exception of the description of the Group's business model, and principal risks and uncertainties, which can be found on pages 10 to 15 and 55 to 60, respectively.

The table below is intended to provide our stakeholders with the content with regards to specified non-financial matters. Further information can be found in policy documents on our website (http://ghg.com.ge/policies).

Reporting requirement	Relevant policies[1]	Annual Report page reference
Environmental and social matters	Environmental and Social Policy	Resources and Responsibilities pages 40 to 48
Employees	Code of Conduct and Diversity Policy	Resources and Responsibilities pages 40 to 48
Human rights	Code of Conduct and Ethics	Resources and Responsibilities pages 40 to 48
Anti-bribery and anti-corruption	GHG's Anti-Bribery and Anti-Corruption Policy	Resources and Responsibilities pages 40 to 48
Business model		Our Business Model pages 10 to 15
Non-financial KPIs		KPIs pages 38 to 39
Principal risks		Principal Risks and Uncertainties pages 55 to 60 Viability Statement page 54 Audit Committee Report pages 84 to 90 The Board pages 78 to 81

As one of the largest employers in Georgia, we recognise our role as an employer of choice and our responsibility for ensuring that our impact on the environment is minimised. We realise that we are accountable not only to our shareholders and patients, but to wider society as well, and continually look for ways to make the Group a responsible business and actively engage with our stakeholders to improve our impact.

In this section, we set out the initiatives we have in place to meet this responsibility and the progress we are making on these initiatives.

GHG is helping transform healthcare in Georgia

Back in 2008, when we decided to enter the healthcare market and to improve the overall quality of healthcare in the country, the market was in need of significant investment, with a vast network of decaying hospital infrastructure across the nation, an oversupply of depreciated hospitals, beds and doctors, and a damaging undersupply of nursing staff. Recognising that it did not have the resources to adequately solve these problems on its own, the Georgian Government launched a "privatisation initiative" and invited the private sector to help overhaul the industry. The Group decided to participate in the programme and in 2008 opened its first hospital with the aim of modernising the healthcare infrastructure, closing the service gaps in the country that forced patients to seek treatment abroad and increasing the overall quality of care that had declined sharply in the past decades.

Over the last ten years, GHG has spent nearly c.GEL 750 million (US$300 million) on upgrading the Soviet-era facilities that were in a decrepit state. It built new hospitals and clinics that were outfitted with modern equipment. In 2019, the Group spent GEL c.4 million on training medical and administrative staff.

Today, GHG is the largest healthcare service provider, pharmaceuticals retailer and wholesaler, and medical insurance provider in the Georgian market. The Group operates a network of clinics and hospitals, pharmacies, a laboratory and a medical insurance business. Read more about our business model on page 10. GHG's health ecosystem generates synergies across all of its segments, resulting in a better patient experience.

GHG is the largest employer in the private sector in Georgia, with about 15,900 full-time employees, including 3,600 physicians, 3,400 nurses and 2,900 pharmacists. It is training the next generation of doctors through 29 residency programmes, and is continually upskilling its doctors, nurses and other medical professionals.

GHG's contribution to Sustainable Development Goals

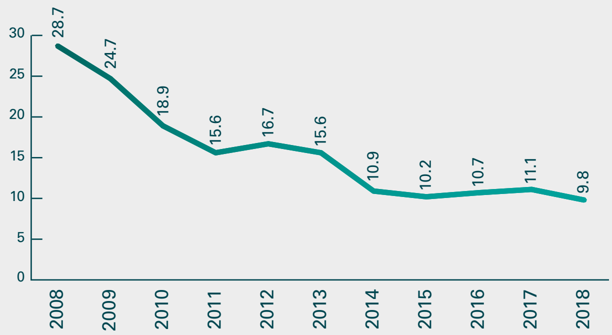
Countries around the world have committed to implementing Sustainable Development Goals ("SDGs").

Implementation of UHC is a key element of goal number 3 "to ensure healthy lives and promote well-being for all, at all ages." GHG is helping the Government of Georgia to achieve SDG 3 with a strategy that promotes greater access to healthcare, while providing financial protection to the most vulnerable groups.

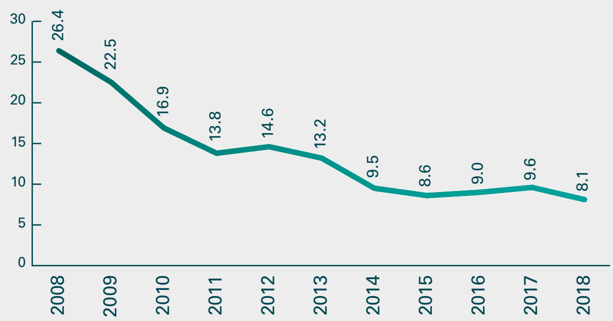
GHG is addressing the medical skills gap, and it is offering essential services including maternal, new born, child health, infectious and non-communicable disease treatments in the communities where Georgians live and work. As GHG expands the availability of quality primary care at outpatient polyclinics, it can help control costs and reduce premature mortality from non-communicable diseases through prevention."– Read more in IFC's case study published on GHG by clicking: https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/health/publications/case+study_ghg.

1 Policies are available at http://ghg.com.ge/policies.

Under-5 mortality rate per 1,000 live births, Georgia



0–1 mortality rate per 1,000 live births, Georgia



Source: Geostat.

Environmental matters

The Group has a separate environmental division closely monitoring and leading environmental operations in our medical facilities. Most of the Group's environmental impact comes from medical waste generation, electricity and water consumption, use of fuel for own vehicles, and paper. By developing various standards and procedures, we aim to become more resource-efficient and environmentally friendly.

Our approach to environmental impact is guided by our Environmental and Social Policy (viewable via: http://ghg.com.ge/uploads/files/Environmental%20and%20Social%20Policy.pdf).

The aims of the policy in respect of environmental issues are to:

- recognise sustainable development as a corporate commitment, sound business management and an integral part of its pursuit of good corporate citizenship;
- be an environmentally responsible business;
- conduct all activities in compliance with relevant environmental legislation and regulations in the countries in which the Group operates;
- provide a clean, safe and healthy workplace for employees;
- conserve natural resources by improving energy efficiency of buildings, limiting energy consumption and the level of harmful emissions, and reduce the consumption of materials by reusing and recycling where possible; and
- require clients to adhere to environmental and social risk management procedures.

We detail below some of the major outcomes of the Environmental and Social Policy in 2019.

Waste management

We have always ensured that our medical waste management record-keeping standards remained at least in line with the national legislative requirements. We further amended such standards in 2018 to be in compliance with new national regulations that came into force during 2018. Our personnel are responsible for registering the information on the produced hazardous waste on the Government platform and filling out waste registration and transportation forms. To further reduce risks and maintain regulatory compliance, we conduct frequent internal trainings on waste management procedures and issue special certificates to the attendees who successfully pass the test. At each of our hospitals, there is a special storage room set up to keep waste before final disposal.

To prevent human or environmental harm, our healthcare facilities collect and dispose of medical and biological waste through a specialised outsourced service. For waste collection, we use plastic bags or containers that have sufficient strength and are secured with staples. We do not fill more than two-thirds of the bags' capacity. Then steam sterilisation is used to decontaminate biological and biohazardous waste, including blood. All used sharp objects are placed in labelled, hermetically sealed single-use containers made of hard plastic. Waste is collected from our sites daily, or twice a day when required. The maximum on-site storage time is 24 hours. To ensure reliability of our contractors, we regularly examine their monthly reports and impose penalties if necessary.

In total, our hospitals generated 682 tonnes of medical waste in 2019, compared with 600 tonnes in 2018.

We will continue to look at innovative ways of reducing medical and biological waste, and take advantage of best practices both in Georgia and internationally.

Supporting a healthy environment

We continuously strive to minimise GHG's environmental impact. To reduce the harmful effects of plastic, Pharmadepot (one of the GHG's pharmacy brands) has been using paper bags in its pharmacies. In 2019, Pharmadepot also revised its previously active Corporate Social Responsibility ("CSR") campaign, and started to produce and promote the use of eco-friendly canvas bags in its pharmacies. We have put in place a reward system for our pharmacies' customers to encourage them to use canvas bags instead of plastic bags. Since the revision of the project, in November 2019 alone 15,000 canvas bags were distributed among our customers.

Both of our pharmacy chains, GPC and Pharmadepot, sell eco batteries which are 100% safe for standard recycling. This is an exclusive product within our market. Selling eco batteries helps emphasise our Group's responsibility and attitude to environmental issues.

We are mindful across the Group of reducing our carbon footprint and contribute to building a recycling-oriented society that strives to coexist with nature. We are promoting going "paperless" throughout the Group. In this regard, we have replaced several historically paper-based procedures with software-based programmes, and have launched "the Green Project" by placing special boxes at our facilities for recycling paper waste. The money received from the sale of scrap paper collected at such boxes will be used for various social activities. The Group's annual consumption of paper stood at approximately 412.2 tonnes in 2019, compared with 520.6 tonnes in 2018.

Resources and Responsibilities continued

Greenhouse gas emissions management

We consume thousands of kilowatts of electricity annually. Electricity usage accounts for more than half of our total greenhouse gas emissions. To be more environmentally friendly and responsible, we continue to implement energy-saving solutions, such as LED lights and other energy-efficient equipment, for example boilers and heating ventilation and air conditioning systems. In order to reduce air pollution and lessen our negative impact on the environment, our Medical Insurance business has shifted from traditional petrol-powered vehicles to lower emission hybrid vehicles. As shown in the table below, our greenhouse gas emissions have nonetheless continued to increase with the expansion of our business, including the ramp-up of the new hospitals, the expansion of the pharmacy chain, and opening Mega Lab.

In 2019, our Clinics business also joined in energy efficiency initiatives. At the initial stage, one of the clinics switched to Solar Power System, an alternative energy source. To minimise emissions and further contribute to eco-friendly energy consumption, two clinics replaced the diesel-powered heating system with a gas heating system. The business is going to continue implementing such initiatives in 2020.

Employee matters

Each and every one of our employees plays a crucial role in the delivery of quality services, and is an integral part of the Group's success. Given the scale of our operations across the country, and considering our role as a significant national employer, we aspire to be an employer of choice and we recognise that it is our responsibility to ensure that our employment policies are in line with good market practice.

Our Code of Conduct and Ethics Policy (viewable via: http://ghg.com.ge/policies) outlines the behaviours and standards of conduct applicable to all individuals working for the Group at all levels of the business – Directors, senior managers, employees, contractors and agency staff. The policy is designed to ensure that:

- the Group provides a safe working environment in which employees are treated fairly and with respect, and that diversity is valued;
- the Group is committed to empowering colleagues to excel and reach their full potential, rewarding colleagues on the basis of merit;
- the Group does not tolerate discrimination, bullying or harassment of any kind; and
- the Group values clear and open communication with colleagues.

Our recruitment policy is aligned with Georgian legislation and the Group's Diversity Policy. We use merit-based recruitment tools, and we have worked to ensure that job descriptions and personal specifications for all GHG vacancies do not, either directly or indirectly, include gender, age or other discriminatory requirements.

The applicant assessment tool is based on evaluation of key competencies and job skills. In order to encourage fair selection, candidates are interviewed by more than one person and undergo several stages of selection.

The Group gives full and fair consideration to employment applications received from persons with disabilities. The Group ensures that people with disabilities are fairly treated in both their training and career development. Should an employee become disabled while working for the Group, we will endeavour to adapt the working environment and provide re-training if necessary, so that they can continue their employment with us and realise their full potential.

Employee engagement

We believe that communication and ensuring that all employees are aware of, and engaged with, the Group's strategy and the way in which each employee can contribute to the delivery of the strategy, is pivotal to our long-term success. Therefore, we provide our employees with the information about our corporate culture, the Group's strategy and goals, performance-related risks, our policies and procedures. We communicate this information in a number of ways: by inclusion in departmental managers' presentations; through our intranet; by email; and at regular town hall and off-site meetings. We conduct induction training for new employees to inform them of our business, the Group's values and priorities, the policies and procedures that apply across the Group, and to support them with settling into a new working environment.

We value the views of our employees. We consult with them frequently and have effective feedback systems, such as employee satisfaction surveys, to ensure that our employees' opinions are taken into account when making the decisions that are likely to affect their interests. In 2019, we decided to change several factors which were highlighted by our respondents to make our performance-based remuneration strategy more agile. A new healthcare plan for GHG employees was created in response to a survey about healthcare insurance benefits. We also commenced exit interviews in 2019. Employee feedback also helps us to improve our approach to customer service.

Talent attraction

Our recruitment division is constantly looking for new ways to attract talented professionals, by continuously updating the pool of candidates for our ongoing and forward-looking recruitment needs. To adhere to our Code of Conduct and Ethics Policy, and in order to ensure that we recognise, reward and retain our top talent, we took important steps in 2019 to implement the GHG internal career development plan. Available vacancies are first announced through internal channels, which serves to promote and facilitate career development opportunities for those within the Group. In 2019, 36 vacancies were filled through internal recruitment at head office level, whereby nine employees were promoted inside the Group.

Greenhouse gas emissions management

Tones of CO_2e	2017	2018	**2019**
Scope 1 (emission from combustion of fuels in stationary equipment and in owned vehicles)	7,993	7,509	**11,554**
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	15,124	16,471	**16,533**
Scope 3 (emissions from air travel and land transport)	4,795	5,430	**5,568**
Total GHG emissions	27,912	29,410	**33,675**
Per FTE	1.85	1.85	**2.12**

For external recruitment, we use the following channels:

- announcing vacancies on job search websites, social networks and other media sources;
- headhunting key employees for managerial positions;
- partnering with universities, colleges and medical associations in Georgia and abroad;
- partnering with private and state HR employment agencies; and
- headhunting Georgian specialists working abroad to attract the best doctors, excellent medical professionals/healthcare specialists to our hospitals.

In 2019, the Group initiated several projects to attract young talent for entry-level positions:

- The Group's businesses participated in 29 job fairs in different universities and colleges, and recruited more than 192 students.
- Under the Student Internship Programme, operated by the Hospitals, Clinics and Medical Insurance businesses, 500 students underwent internship in different GHG facilities and positions, 106 of which were hired by the Group.
- To attract and develop the next generation of leaders and fill the gap in mid-level managerial positions, our Pharmacy and Distribution business initiated the Young Talent Programme. The candidates selected from leading universities were assigned to different departments of our Pharmacy and Distribution business under the mentorship of our employees. We expect to hire successful candidates within a year and promote them to mid-level managerial positions within two years.

Memoranda of Understanding ("MoU") with universities

Medical schools continue to be our main source of emerging talent. The Group partners with almost all leading universities in Georgia, including non-medical schools. We offer these universities our clinical sites for various educational purposes, such as on-the-job training.

We have signed MoUs with 15 nursing colleges in all regions of Georgia. The list includes a special partnership with Panatsea, the biggest nursing college in Tbilisi, as well as a partnership with David Tvildiani Medical University. Together, we initiated and facilitated the opening of a joint Nursing College in 2016.

We have an exclusive partnership agreement with the pharmacy college Orientiri. We offer grants to our employees who have little or no pharmaceutical education. After two years of college, they can graduate with a pharmacy degree and start a career in one of our pharmacies. GEPHA finances 50% of the total tuition fee. Fourteen participants are already enrolled and are expected to graduate in 2020, and three of them are already working with us. The main goal of the project is to address the shortage of pharmacists and increase the number of the staff qualified for this position.

GHG Leadership Programme (the "Programme")

The programme is one of the pillars of GHG Human Capital Strategy (see more on pages 26 to 27). The Programme is designed for our 250 middle-level managers to further develop and improve their managerial and leadership skills. A total of 179 managers have already taken the five-month, 180-hour General Management Course since 2017. The course is designed by the Bank of Georgia University, one of the top schools in the country. We balance gender composition in our programme, where 67% of the participants are female and 33% are male.

For our programme participants, we have also developed a Personal Development Programme, which builds leadership competencies through effective performance feedback and coaching sessions. In 2018 and 2019, 106 middle managers used the 360-feedback tool, developed their personal plan, and 75 of them also took part in individual coaching sessions.

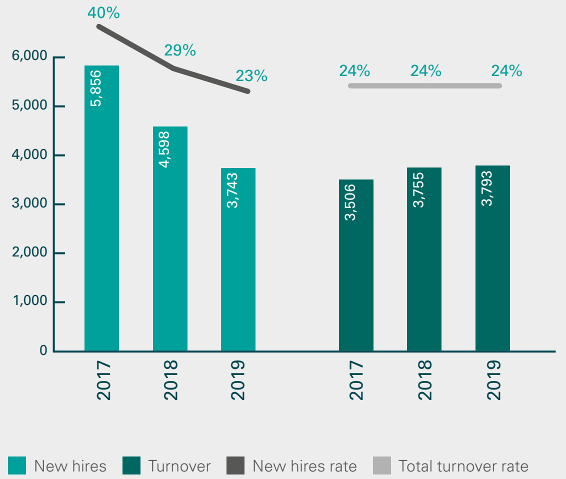
Training and development

We invest in various professional educational opportunities. In 2019, we invested GEL 4 million in training and development courses Group-wide, mostly designed for our nurses, physicians, pharmacists and managers.

We are proud to have our own EVEX Learning Centre, the only centre in Georgia offering continuing medical education. The centre has been operating since 2014. Our learning centre independently develops and runs a variety of Continuing Professional Development Programmes ("CPDs"). Most of the CPDs consist of medical training for physicians and nurses, although some non-medical staff, such as hospital administrators and receptionists, can also participate.

Employee matters

Total number and rate of the Group's new employee hires and employee turnover (%)



Gender distribution of the Group per employee category

Resources and Responsibilities continued

In 2019, the EVEX Learning Centre trained a total of 2,623 nurses (both employees and candidates), 3,208 physicians and 518 back office employees and managers. In 2019, EVEX Learning Centre conducted a six-month, 108-hour Basic Nursing Course for students and nursing professionals wanting to be employed in our hospitals. A total of 132 of them, who reached the passing score in the final test, were offered jobs at our healthcare facilities. In 2019, our Hospitals business developed and implemented the E-Testing module to make the staff attestation process more efficient. C.745 nurses participated in the e-Testing attestation process. In 2020, we are going to develop different contents for the E-Testing module, covering other testing courses as well.

Professional development of our Pharmacy and Distribution business employees is led by the GEPHA Training Centre trainers (employees with a background in pharmacology, para-pharmacy and operational standards), mentors (employees from different business units supporting on-the-job training and inductions) and coaches (employees with appropriate backgrounds who conduct soft skills training). In 2019, the GEPHA Training Centre trained a total of 4,000 participants. Among them, 186 students took a preparation course for pharmacists and 35 of them were offered a job.

Our Pharmacy and Distribution business launched a new 27-hour, four-day Basic Sales Skills training programme for pharmacists. The programme started in November 2019 and is planned to train all front-end staff until the end of 2020 (2,100 trainees in total). The purpose of the course is to improve sales, cross and up-sales skills through effective verbal and nonverbal communication, knowing client typology, having a variety of interaction tools in order to increase sales and customer satisfaction.

To encourage continuing professional development, our Medical Insurance business also operates its own Imedi L Academy, offering specialised vocational training programmes and courses to its employees. Training programmes are delivered by guest speakers as well as company managers, who share their ideas, experience and best practices. Imedi L Academy has established a corporate library with a large variety of books to give employees opportunities for growth, learning and self-development. Imedi L Academy trained 1,442 participants in 2019.

In May 2019, we opened a small library – The Exploration Centre – in our head office in Georgia. The library contains around 600 books about business, leadership and other fields.

Residency programme

In line with our strategy to develop a new generation of doctors in Georgia, we launched a postgraduate residency programme in a number of fields in 2015. These programmes ensure development of qualified specialists in the areas where we lack physicians. The programmes have proved to be popular. Currently, we have 237 talented residents involved in 29 specialties; 14 of them have received a 100% grant and 37 an 80% grant, while 32 residents have obtained student loans. In 2019, 44 residents completed the programme. See more details on page 27.

Gradually switching to the alternative energy source – Solar Power System.

New national nurse education curriculum

After our nursing training curriculum was approved as a national standard for nursing colleges in Georgia in 2019, we contributed more to the enhancement of nursing education by creating a nursing educational literature in collaboration with the European Bank for Reconstruction and Development ("EBRD"). The first nursing book, focusing on trauma nursing care in the emergency department, has already been translated into Georgian. This will help nurses to systematically assess trauma patients, intervene and/or assist with interventions, and provide trauma nursing care according to international standards.

Incentive plans for employees

The Group encourages performance-based incentives and offers financial and non-financial rewards to enhance pay-for-performance culture. These incentives vary from role to role and may include:

- Cash bonuses (based on performance appraisal);
- Share awards (based on performance appraisal) – for the managerial team and high-performer employees;
- One-time premiums for exceptional performance;
- Medical insurance;
- Malpractice insurance;
- Maternity leave; and
- Other allowances, e.g. accommodation fee.

We manage our employees' performance using the Management by Objective methodology. At the beginning of each year, all business units plan collective and individual goals that are aligned with the annual Key Business Objectives ("KBOs"). Our employees undergo annual or semi-annual performance assessments based on these KBOs and other competencies that reflect our values and the strategic objectives outlined by the Board of Directors.

We also offer a healthcare plan for our employees and their families. Each employee is entitled to basic healthcare services. Currently, 16,900 employees and their family members are benefiting from the GHG employee programme.

Mandatory pension fund

In January 2019, a new pension law became effective in Georgia introducing a mandatory accumulative pension scheme. According to the law, employees are required to contribute 2% of their earnings to their retirement savings, and employers are required to add the same amount, while the Government's contribution depends on an employee's income and varies from 0% to 2%. Participation in the pension fund is obligatory for the employees under the age of 40. The Group invested approximately GEL 4.3 million in 2019 in the mandatory pension benefit for our employees.

Corporate culture development

We seek to achieve a high level of employee satisfaction. Each year, we launch a few projects to develop our corporate culture and increase employee engagement. Our Board of Directors is highly engaged in culture development activities. In June 2019, the Group's Chair gave a "Leadership Talk" and engaged in a dialogue with our employees at managerial positions. During 2019, GHG Board members also hosted talent breakfasts, conducted site visits, met employees and carried out strategic workshops.

Please also see the Directors' Governance Statement for more on the reflection on, and development of, culture within the Group in 2019.

All business lines of the Group have their own agenda and activities dedicated to employee engagement and appreciation:

- Our Hospitals business conducted two major annual events – the Doctor Day and the Nurse Day, where 2,200 doctors and 2,300 nurses were invited.

- In June 2019, our Hospitals and Clinics businesses celebrated International Children's Day. A total of 4,500 employees joined the celebration and had a chance to invite their children to their working space.
- In October 2019, our Hospitals business launched the Life Ambassadors project. The goal of the project is to identify the most interesting and successful medical cases throughout our hospital network, and to present them to our employees and the wider audience. The project had extensive publicity nationwide, aiming to build public trust of medical professions. A total of 116 of our doctors, alongside their teams, participated in the project, presenting 27 unique medical cases in eight different nominations: innovation in treatment, the most extreme decision, the mentor of the year, the debut, and the medical team of the year. Based on public votes, 64 doctors were nominated.
- The Medical Insurance business held various activities during the year, such as "Children and Parents' Day", and "Learn more: Take care of the environment". In 2019, the business invited Caucasus Environmental Non-Governmental Organization Network's (CENN) specialists who shared the information about the current state of forests in Georgia. After the meeting, our employees planted various types of plants in the yard of our head office. Imedi L Academy has invited guest speakers – Georgian writers and speakers – to the Imedi L Library to encourage learning and self-development among employees. In 2019, the sales department and the customer relationship management department took part in a rotation programme, aiming to get acquainted with both professions, while other departments are planned to be involved in the programme in 2020.
- The Employee Fund is one of the most popular projects among our employees. Employees voluntarily contribute 1% of their monthly salary to the fund, while the business adds 50% of the amount accumulated each month. The fund is managed solely by our employees through elected committees in each hospital and clinic. The Fund currently has 3,085 voluntary participants, and in 2019 raised more than GEL 0.5 million. The fund has contributed to more than 900 cases – mainly supporting the cases of health issues and family members' illness, as well as team-building, and motivational and learning activities for our employees.

Social matters

When developing its strategy and operations improvement processes, the Group considers the interests of its main stakeholders: its patients, customers, shareholders, employees and society. We strive to support public welfare with all our business activities by developing socially oriented services, applying responsible approaches to our business operations and carrying out sponsorship and charitable activities. In doing so, we follow our undertakings in respect of social and community matters, as set out in our Environmental and Social Policy. We detail on pages 74 to 75 of this Annual Report how the Board and the Group more widely have identified its key stakeholders, the methods of engagement with stakeholders in 2019, alongside what we are hearing from stakeholders and how we are responding.

The Group is proud to serve three-quarters of the Georgian population and makes every effort to promote a healthy lifestyle (as detailed later in this Annual Report). We use our medical expertise in our social initiatives to focus primarily on providing pro bono medical assistance, developing medical infrastructure and improving the health awareness of the Georgian population.

Free medical check-ups

Our services cover more than 75% of the Georgian population, as our clinics are located across the country providing access to high-quality medical care even to those living in remote mountain regions. We have put in place a series of measures to ensure access in remote areas, including scheduling regular specialist visits to small towns and villages, and transporting patients to larger clinics in urgent cases or where more sophisticated treatment is required.

Our healthcare services business also provides free regular medical examinations in its facilities throughout the country. In 2019, we carried out 28 different free screening programmes in total for up to 72,000 patients. Such free-of-charge medical check-ups and screening programmes include managing tuberculosis, cancer screenings, hepatitis C screening and antenatal programmes.

Furthermore, in 2019, our Hospitals business carried out 24 different free-of-charge medical check-ups, benefiting up to 2,830 patients. Apart from this, during the year our hospitals spent up to GEL 2 million to provide free medical services to the socially and economically disadvantaged groups of the population.

In addition, GHG's specialists deliver free medical services, including examination and treatment of socially and economically disadvantaged groups of the population. In cooperation with other healthcare institutions, the Group arranges free blood donations for its patients.

Affordable care

We help patients with chronic diseases to get accessible and affordable care by offering special prices at GHG pharmacies on the medications they need on a regular basis. Such patients can register five most frequently used medicines on their GHG loyalty card (loyalty cards are available at our pharmacies) and get an extra discount on each purchase.

To support parents with young children, we offer them special prices on the products in most demand at our pharmacies. The parents can choose different pharmacy and para-pharmacy products, such as nappies, porridge, milk formula, washing gel and moisturising lotion, to register on their loyalty card and get additional discounts.

As in other parts of the world, diabetes in Georgia is on the rise, with the incidence rate per 100,000 citizens now reaching 506. To address the disease's increasing prevalence, we offer 50% discount on test strips to patients with diabetes.

In 2019, we introduced a new initiative for socially and economically disadvantaged individuals. Within the scope of this initiative, for every newborn baby, parents are gifted a GEL 20 voucher. Vouchers can be redeemed in our pharmacies. During the year, 17,000 vouchers were issued. The project will continue in 2020. We acknowledge that primary prevention and early detection, through screening programmes and early clinical diagnoses, are among the key components of health control which, in turn, can lead to a decrease in disease incidence and mortality rates. In 2019, we introduced GPC laboratories in our pharmacies and have already opened ten blood collection points and plan to continue the process to arrive at c.50 blood collection points in the coming years. We continuously offer our customers discounts and special prices on different blood tests. Periodically, we provide the CBC (Complete Blood Test) service free of charge.

Resources and Responsibilities continued

Children's Oncology Programme

The Group traditionally participates in the Government-subsidised Children's Oncology Programme. Under this programme, we offer cancer treatment to children with different oncology disorders (leukaemia, tumours and lymphomas) in our Iashvili Paediatric Tertiary Referral Hospital ("Iashvili"), a multi-profile paediatric medical establishment, which is the sole provider of paediatric oncology services in Georgia.

Since 2017, the renovated department has enabled us, for the first time in the history of the Iashvili Hospital, to receive patients with solid tumours. In 2019, more than 672 patients with different types of cancer received treatment at Iashvili onco-haematological department, 608 of which have completed the treatment course successfully.

Healthy lifestyle

Living a healthy lifestyle can help prevent chronic diseases and long-term illnesses. To support a healthy lifestyle, the Group segments initiated several activities in 2019:

- Sponsoring medical TV programmes is our way of reaching out to a wider population to raise health awareness and promote healthcare practices. In 2019, GEL 167,800 was spent on financing these TV programmes (GEL 120,300 in 2018).
- In 2019, our Clinics business launched the Student's Programme. We signed a Memoranda of Understanding (MoU) with 22 universities, in which c.20,000 students were involved. Within this programme, we offered students an extended coverage under UHC and additional discounts on various medical and dental services. During the year, we spent GEL 100,000 on these activities. Within the framework of MoUs, successful students were also offered a six-month scholarship and employment in different administrative positions at our clinics.
- We financed several sports championships and provided sporting equipment to university teams.
- To promote a healthy lifestyle among children, in 2019, we entered into MoUs with ten kindergartens and are in the process of negotiation with 35 kindergartens and schools. Our Clinics business provides free medical support and screening programmes for different diseases to the pupils and teachers of the participating entities.

Office Without Tobacco

We recognise that smoking continues to be one of the leading causes of preventable deaths in Georgia, and that it is the top public health priority in the country. We also recognise that, as a national healthcare provider, the Group has a strong responsibility to support those willing to quit smoking, whether they are employees or patients.

Children's Oncology Programme.

Since 2017, the healthcare services business has run a campaign – Office Without Tobacco – for its head office employees, promoting a healthy lifestyle within the organisation. With the help of the specialists and consultants invited from the Tobacco Control Alliance, a special treatment programme was developed. Each of our employees willing to give up smoking can participate in the programme to get rid of their nicotine addiction using medication and psychological treatment free of charge. With the help of the programme, since 2017, approximately 32 employees have been successful in quitting smoking. The 2017 course participants met employees a few times in 2018-2019 to share their success stories.

Sponsorship and charity

As part of our sponsorship and charitable activities, the Group continues to focus on promoting and enhancing access to education and a healthy lifestyle, facilitating innovative projects dedicated to delivering sustainable results and bringing positive change.

Education

- We believe that professional medical education is the cornerstone of healthcare quality in Georgia. For this reason, we try to develop a healthy learning environment by financing international and local medical conferences. In 2019, we sponsored medical conferences (GIMPHA, Laparoscopic Surgery Conference, Emory Conference, Reproductive Health Conference, etc.) and workshops, which brought together medical scholars and healthcare practitioners from Europe, Asia, the US and Georgia to share knowledge and experience that influence and shape healthcare delivery. Total financial support of the conferences amounted to GEL 297,427 in 2019 (GEL 531,544 in 2018).
- In 2019, to address the unfavourable statistics of first aid awareness in Georgia (four out of five people do not know how to administer lifesaving first aid), with the collaboration of Batumi Boulevard, our Hospitals business started a First Aid Campaign. Within the framework of this project, our nurses, specially trained in the First Aid Training of Trainers Module, were giving first aid training to non-physician citizens of the Adjara region. The training was held at Batumi Referral Hospital. As part of the project, 30 coded boxes of first aid were placed along the 4 km strip of the Batumi Boulevard. During 2019, we trained 500 volunteers in Batumi and 110 local rescuers in winter resorts (Gudauri, Bakuriani, Svaneti and Goderdzi).

Charity

- In 2018, the Hospitals business signed a memorandum with the Georgian Solidarity Fund. According to the memorandum, we offer fund beneficiaries free medical services at our facilities. In 2019, up to 73 beneficiaries received free medical check-ups at our hospitals.
- The healthcare services business also partners with the Dimitri Tsintsadze Foundation (a charitable fund that helps children suffering from leukaemia and cancer) and the Monk Andria Foundation, and offers 20% discount on all our healthcare services for the funds' beneficiaries.
- We are involved in the Preservation of Natural and Cultural Heritage of Caucasus supported by the Caucasus Nature Fund ("CNF"), which is dedicated to effective long-term management of the protected territories of Armenia, Azerbaijan and Georgia. In 2019, for its tenth anniversary, CNF announced a fundraising campaign. GHG donated GEL c.44,800 to the project.
- In 2019, our Pharmacy and Distribution business sponsored the Children's Hospice "Firefly World" charity event. The Hospice provides holistic palliative care to children, young people and their families in Georgia.
- Our Pharmacy and Distribution business participated in Wings for Life World Run 2019. A total of 100% of the registration fee goes directly to research that helps to find a cure for spinal cord injury.

Group policies

Human rights

We recognise the fundamental importance of human rights and are committed to implementing socially responsible business practices. The Group provides a safe working environment in which employees are treated fairly and with respect, and differences are valued. The Group is also committed to dealing fairly with our customers, competitors and suppliers. Our Corporate Handbook – Code of Conduct and Ethics – establishes our main priorities and introduces internal controls that provide equal opportunities and prevent discrimination or harassment on any grounds. The policy can be found on the Group's website: http://ghg.com.ge/policies. Our HR Policy applies to all employment processes, including training and development.

Diversity

We manage diversity and discrimination very carefully in the Group. Our Diversity Policy clearly states that GHG is fully committed to the elimination of discrimination and recognises the value that a diverse workforce brings to the organisation. In accordance with our Employee Handbook, "The Company prohibits any form of discrimination against employees, patients, clients, partners, guests, job seekers or any third parties".

We define harassment and complaints management in our Employee Handbook as follows, "Any employee who believes that there is offensive or discriminatory conduct towards them or the working environment is hostile, may file a complaint followed by the procedures according to the Workplace Dispute Resolution."

We carefully monitor our recruitment process to be fair to both internal and external applicants. All GHG employees can participate in the internal recruitment process, as vacancies are equally distributed across the Group.

In our Group, 71% of applicants are female. On average, we have five shortlisted applicants per vacancy. We are proud to be the country's biggest private employer yet to have no formal complaints or litigations from our applicants due to the recruitment process. Within the scope of our Corporate Social Responsibility ("CSR") campaign, we provide employment opportunities to people with disabilities. We are currently employing 17 people with disabilities. We plan to advance this project and give opportunity to more people for better inclusion.

Anti-bribery, anti-corruption and whistleblowing

The Group and its subsidiaries are committed to ethical and honest business practices. We recognise the damaging impact that bribery and corruption have both on the economy and on a business' reputation and credibility. The Group's policy is never to offer, pay, request, solicit or receive bribes, or to facilitate, assist in or abet any offer or payment of bribes, and to refuse any request to pay them. GHG's Anti-Bribery and Anti-Corruption Policy sets out the Group's approach to preventing bribery and corruption in line with all applicable anti-bribery and anti-corruption laws. This policy aims to:

- outline principles for conducting business with integrity and in accordance with the highest ethical standards;
- provide guidance on the types of behaviour that may give rise to violations of anti-bribery and anti-corruption laws; and
- ensure that the financial and other resources of the Group are used solely for their proper purpose; and promote a culture of honesty and openness among the Group's staff.

This policy applies to the Group and all of its Directors, officers and employees at all times, and applies wherever the Group does business. The Group takes steps to ensure that all employees are aware of, and adhere to, the policy.

The Anti-Bribery and Anti-Corruption policy can be found on the Group's website: http://ghg.com.ge/uploads/files/Anti-Bribery%20and%20Anti-Corruption%20Policy.pdf.

The Internal Security department, set up at the GHG level, closely watches and monitors day-to-day business and promotes a transparent environment within the Group.

In 2018, the Internal Security department introduced several changes to the goods and services procurement procedures for the Hospitals business. Every procurement, where the contractual amount is over GEL 50,000, must be carried out through open tendering. Tender participants are screened by the Internal Security department based on different criteria, such as experience, transparency, works executed and environmental compliance. The screened bidders are allowed to participate in the tender, final decision on which is subject to the Tender Committee's approval.

To achieve the best quality of service and the highest possible ethical standards, the Internal Security department has started promoting freedom of expression. The purpose of this initiative is to convince employees and others who have serious concerns about any aspect of the organisation and its work to come forward and voice those concerns. Thus, whistleblowing is viewed as a positive act that can make a valuable contribution to the Group's efficiency and long-term success. To encourage whistleblowing practice, starting from 2019, hotlines were set up in each of the Group's business webpages, where any affected stakeholder (including employees and patients) can raise their concerns. The cases will be further analysed by the Internal Security department and relevant measures will be taken. Since hotlines were set up, three minor cases were identified, further analysed by the Internal Security department, with no significant impact.

The Whistleblowing Policy can be found on the Group's website: http://ghg.com.ge/uploads/files/Whistleblowing%20Policy.pdf.

How we implement our policies across the Group

In August 2015, GHG's Board of Directors adopted and approved the policies establishing minimum requirements and general standards for environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery issues. These are reviewed annually to ensure the Company is operating at maximum effectiveness. Through respective policies, the Group recognises that its activities may affect the environment and the community in which it operates directly or indirectly, and is committed to running its business in a responsible and sustainable manner in order to reduce the environmental and social impact of its operations.

First Aid Campaign – contributing to the increase of first aid awareness in Georgia.

Resources and Responsibilities continued

All policies were developed and issued based on the Group's internal standards. Approved documents were published on the Company's intranet, and internal policies and procedures platform. Several of the policies are available on the GHG website at http://ghg.com.ge/policies.

It is mandatory for all new employees to read the Employee Handbook (which they confirm by signing the special annex of the employment agreement) and all procedures and policies related to their job. The HR department coordinates the induction training for newcomers, where it presents the polices and support its introduction process. Managerial level or the intra-department mentors are in charge of teaching the job-related policies to newcomers. Policies are reviewed further to changes in practice or legislation. Amendments of the policies are shared with the employees via our usual channels of communication: email, intranet, managers meetings, and HR meetings, if necessary.

Data privacy

In 2019, the Group enhanced the personal data privacy framework and approved its Personal Data Protection Policy, according to which, as the largest healthcare provider in the country, GHG acknowledges the critical importance of data privacy and confidentiality of its stakeholders and ensures protection of personal information of its patients, employees and other related parties. Among other details, the policy lists the principles of personal data processing, such as lawfulness, fairness and transparency, purpose limitation, data minimisation, accuracy, storage limitation, integrity and confidentiality (security), and accountability. The policy was distributed among the Group employees and various training sessions were scheduled with different groups of employees to support a detailed introduction and implementation.

Compliance

Compliance with the Group's standards is ensured via centralised control, exercised by the respective business lines in their day-to-day activities. In addition, the Internal Audit department, Internal Security department and the Risk Management team periodically carry out direct control reviews, which includes undertaking surveys, due diligence, monitoring and other internal control system tools and methods. The Internal Security department closely monitors adherence to Anti-Bribery and Anti-Corruption Policy in day-to-day activities.

During 2019, the Internal Audit department was engaged in various assignments. The Internal Audit team assessed efficiency of management processes and the relevant control system, as well as adherence to applicable internal procedures and legislative requirements related to:

- Medical equipment procurement;
- Trade and non-trade inventories management in the Pharmacy and Distribution business;
- Cash management in the Hospitals and Clinics businesses;
- Providers' network management in the Medical Insurance business;
- Procurement of trade inventories in the Pharmacy and Distribution business;
- Personal data protection in the Hospitals and Clinics businesses;
- Corporate sales in insurance line; and
- Wholesale in the Pharmacy and Distribution business.

The Internal Audit department did not reveal any highly significant risks during the audits. Recommendations were developed, aimed at minimising other risks, increasing efficiency and improving control mechanisms. Management action plans were agreed with process owners/line managers and implementation is currently in progress.

Annex 1

GHG emissions calculation methodology

We have reported on all the sources of emissions required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2), and additionally reported on some emissions under Scope 3. These sources fall within our consolidated Financial Statements. We are not responsible for any emission sources that are not included in our consolidated statements.

We have used the World Resources Institute/World Business Council for Sustainable Development ("WRI"/"WBCSD") Greenhouse Gas ("GHG") Protocol: A Corporate Accounting and Reporting Standard (revised edition) and the UK Government Conversion Factors for GHG.

Factors for Company reporting 2019

The data is collected and reported for three of the Group's businesses:

- healthcare services, including its head office, hospitals, clinics, laboratory and other entities, where GHG has operational control;
- pharma, including its head office and pharmacies; and
- medical insurance, including its head office.

The data on emissions resulting from travel are reported for business-related travel only and exclude commuting travel. Data from joint ventures, investments or sub-leased properties have not been included in the reported figures. The data for 2019 are provided by on-site delegates, invoices and metre readings.

Scope 1	Combustion of fuel and facilities operation includes emissions from: • combustion of natural gas, diesel and petrol in stationary equipment at owned and controlled sites; and • combustion of petrol and diesel in owned vehicles (cars and buses).
Scope 2	Electricity, heat, steam and cooling purchased for own use includes emissions from: • electricity spent at owned and controlled sites; to calculate the emissions, we used the conversion factor for Non-OECD Europe and Eurasia (average) from the UK Government GHG Conversion Factors for Company Reporting 2018; and • used heat and steam.
Scope 3	Includes emissions from: • air business travel (short-haul and long-haul); information on the class of travel is unavailable, hence we used an "average passenger" conversion factor; and • ground transport, including taxis, vans and cars hired.

s172(1) Statement

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors consider that they, both as a whole and individually, have acted in a way that they consider in good faith would be most likely to promote the success of Georgia Healthcare Group PLC for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Companies Act 2006).

Steps the Board has taken to meet its s172 responsibilities

- The Board agenda has been revised in 2019 to include further information for Directors on each of the provisions of s172 within the Act. Periodic refresher training on corporate governance issues, including on s172 duties, is given to all Directors and s172 duties are a focal area for new Director training.
- As detailed above, the Board has focused in 2019 upon long-term value generation opportunities, taking into account likely macroeconomic changes and stakeholder considerations. We reflect on a number of these opportunities, and how they have been developed over the year, throughout this Report.
- The Board has given even greater focus in 2019 on quality standards for patients and consumers, an important stakeholder for the Group.
- The Board has actively engaged, both as a whole and on an individual basis, with employees across each business of the Group, with a view to further understanding their views. We have appointed a dedicated Non-Executive Director, Dr Mike Anderson, who is responsible for workforce engagement.
- The Board has started to receive more detailed information on customer feedback, through Net Promoter Score surveys for example. This will continue to be developed over the course of 2020.
- The Board has asked management to consider, and bring to the Board's attention, section 172 matters when making a presentation that requests a Board decision, so that there is an extra layer of people, close to a project, who also consider and escalate stakeholder considerations to the Board. The Board continues to reflect regularly on the quality of Board and Committee meeting materials, and will continue to consider whether further information is required within such materials on stakeholder considerations.

As a Board, our intention is to uphold the highest standards of business conduct and ethics, which in turn shapes the formulation and delivery of our long-term strategic objectives. The Board is of the view that such standards benefit the Group in a number of ways, including commercial and reputational benefits, improving recruitment and retention, and greater patient and customer loyalty.

How we engage with our stakeholders

As a major healthcare provider in Georgia and in the Caucasus region, we understand the importance of ensuring that we actively engage with, and take into account the views of, our major stakeholders.

We detail in our Corporate Governance Statement (pages 74 to 75) who we consider our major stakeholders to be and how we take into account, and respond to, those stakeholders.

All of these stakeholders are material to the long-term success of the business, and relationships with our stakeholders support the generation and preservation of value in the Group, as well as our culture and values (for further information on our culture and values, please see our Corporate Governance Statement).

Share Exchange Facility

As detailed elsewhere in this Report, one key decision made by the Board over the course of 2019 was in respect of the Share Exchange Facility, whereby shareholders of the Company were offered the opportunity to exchange their shares in the Company for shares in Georgia Capital PLC.

Throughout the Board's consideration of the proposal from Georgia Capital PLC, the Board was mindful of the need to act fairly with regard to members of the company, with equal treatment of all shareholders being a critical proviso, alongside the need to ensure the Company's continued compliance with free-float and other eligibility requirements under the FCA Listing Rules.

The Board considered the terms accordingly, including access to the facility for minority shareholders. Consequently, the Board found the approach to be not hostile and that they were satisfied regarding equality of treatment of shareholders.

How stakeholders are shaping Board decision-making

The Board strives to understand the expectations, needs, concerns and ideas of our stakeholders, be they shareholders, patients, healthcare professionals, employers, government, local communities and third-party suppliers. By incorporating their feedback into our strategy and our daily business, we are able to address the most commonly expressed issues and develop solutions.

As part of the Board's duties, Directors have regard to the need to foster the Company's business relationships with suppliers, customers and other stakeholders. We set out examples below in action of how that has impacted on some of the principal decisions we have made during 2019.

The Body Shop

We detail in our Strategic Report our new partnership with The Body Shop, which we hope will continue to go from strength to strength over the course of 2020.

From the Group's perspective, the rationale underpinning our collaboration with The Body Shop is that it is a natural fit as we seek to benefit our stakeholders. The partnership with such an internationally renowned brand, with such a formidable reputation for taking positive action on environmental issues, is important for us as a Group. From its perspective, our involvement provides The Body Shop with an opportunity to enter into the Caucasus region.

We have received regular updates as a Board in 2019 on the financial and non-financial benefits of the partnership, as well as the issues that The Body Shop has raised as a supplier.

s172(1) Statement continued

It is important to us as a Board to understand our third-party suppliers, the issues that they hold and the way in which those issues are being taken forward.

EKIMO

The opportunities offered by digitalisation in taking care of patients are significant. The change of pace with which customers and patients across Georgia are embracing mobile and digital applications continues to increase, and it is important that we respond to changing patient expectations. We are also very conscious that, in an industry that is rapidly changing, companies that adopt a 'digital first' mindset will generate and maintain an important long-term competitive advantage.

In 2019, GHG introduced an innovative, open and fully independent digital healthcare platform for the entire country. "Dear Doctor" – that's what EKIMO means in Georgian.

The platform integrates all components of the healthcare ecosystem: doctors, clinics, laboratories, pharmacies and insurance companies, and provides individuals with a quick and easy access to entire ecosystem, through a very simple, fully online registration in the application (takes c. 20 seconds). It is free of charge for end users, while its backend is open to any healthcare service or health product provider in the country.

Further information on EKIMO is available on page 19 in this Strategic Report.

The Board has received regular updates on the development of EKIMO over the course of 2019. In addition to forecasts on the long-term value that the introduction of EKIMO will generate, and information on the non-financial benefits that EKIMO will bring, the Board has been regularly apprised of the user testing that has been undertaken in the development of the application, as well as the feedback that has been received from both medical professionals and patients.

The Board has noted that the feedback that we have received from stakeholders has helped management to optimise functionality of EKIMO as well as prioritise features, and define the product specifications EKIMO's development pipeline for the next three to four years. As a consequence, both the value proposition to customers and providers, as well as our Group's return on investment, have become clearer and more estimable.

An open and fully independent digital healthcare platform for the entire country.

Partnership with The Body Shop – a natural fit to benefit our stakeholders.

Risk Management

We are exposed to a variety of risks and uncertainties which could have a material adverse effect on our key stakeholders (including, but not limited to, our shareholders, patients and customers), as well as our business, financial position, operational results and reputation, and on the value of our shares.

We recognise that the effective management of risk and a robust system of internal controls is critical to delivering our strategic objectives and protecting the interests of our shareholders.

Overview

We identify, evaluate, manage and monitor the risks that we face through an integrated control framework consisting of formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms that our current risk management framework has been in place throughout the year ended 31 December 2019 and to the date of approval of this Annual Report and Accounts, and is integrated into both our business planning and viability assessment processes.

Our Board, supported by our Audit Committee, Clinical Quality and Safety Committee and senior management, is ultimately responsible for the Group's risk management and internal controls, and for ensuring that an appropriate culture of risk awareness and risk management has been embedded throughout the organisation.

We have worked to ensure that managing risk is ingrained in our everyday business activities. We seek to create an environment where there is openness and transparency in how we make decisions and manage risks, and where business managers are accountable for the risk management and internal control processes associated with their activities. At an operational level, management also seek to ensure that risk management is responsive, forward-looking and consistent.

Our framework

The Board's mandate includes determining the Group's risk appetite and risk tolerance, as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. We develop risk management strategies which address the full spectrum of risks that the Group faces. We are accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit Committee and the Clinical Quality and Safety Committee assisting in the discharge of this responsibility. We also focus on the resolution of any internal control failures that may arise. No significant failures occurred during 2019 or the period up to the date of this Annual Report.

The Group's risk appetite is the amount and type of risk that we are prepared to seek, accept or tolerate. Our risk appetite evolves over time to reflect new risks and changes in external market developments and circumstances.

Our control framework is the foundation for the delivery of effective risk management. We develop formal policies and procedures which explain the way in which risks need to be systematically identified, assessed, quantified, managed and monitored. We clearly delegate authority levels and reporting lines throughout the management hierarchy. Each business participates in the risk management process by identifying the key risks applicable to its business. We strive to build our first line of defence against material risks (and the recently implemented Delegation Project reflects all aspects of this strategy), and we work closely with all levels of management to reinforce risk awareness as well as a risk-based pricing mindset in all employees involved in our day-to-day operations and business processes. Through senior management, we ensure that our employees are given appropriate training and knowledge to perform their roles in line with the framework we have developed.

On a day-to-day basis, management is responsible for the implementation of the Group's risk management and other internal control policies and procedures. Based on our risk culture, managers "own" the risks relevant to their respective function.

For each risk identified at any level of the business, the risk is measured, mitigated (where possible) in accordance with our policies and procedures, and monitored. This includes emerging risks. Managers are required to report on identified risks and responses to such risks on a consistent basis. Senior management reviews the output from the bottom-up process by providing independent challenge and assessing the implementation of the risk management and internal control policies and procedures.

This system is bespoke to the Group's particular needs and risks to which it is exposed and is designed to manage rather than eliminate risk. Due to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss.

The Board has put in place corporate governance policies and procedures that aim to ensure that there is good and clear awareness and understanding of the policies and procedures amongst senior management, as well as throughout the organisation.

Comprehensive reporting forms an integral part of our framework. Our reporting process enables key risks to be escalated to the appropriate level of authority and provides assurance to the committees and the Board. Key developments affecting our principal risks and associated mitigating actions are reviewed quarterly (or more often if necessary, on an ad hoc basis outside of the regular reporting process) by the Audit Committee and the Clinical Quality and Safety Committee, as appropriate, and the Board. The principal risks and uncertainties faced by the Group are identified through this process, as are the emerging risks.

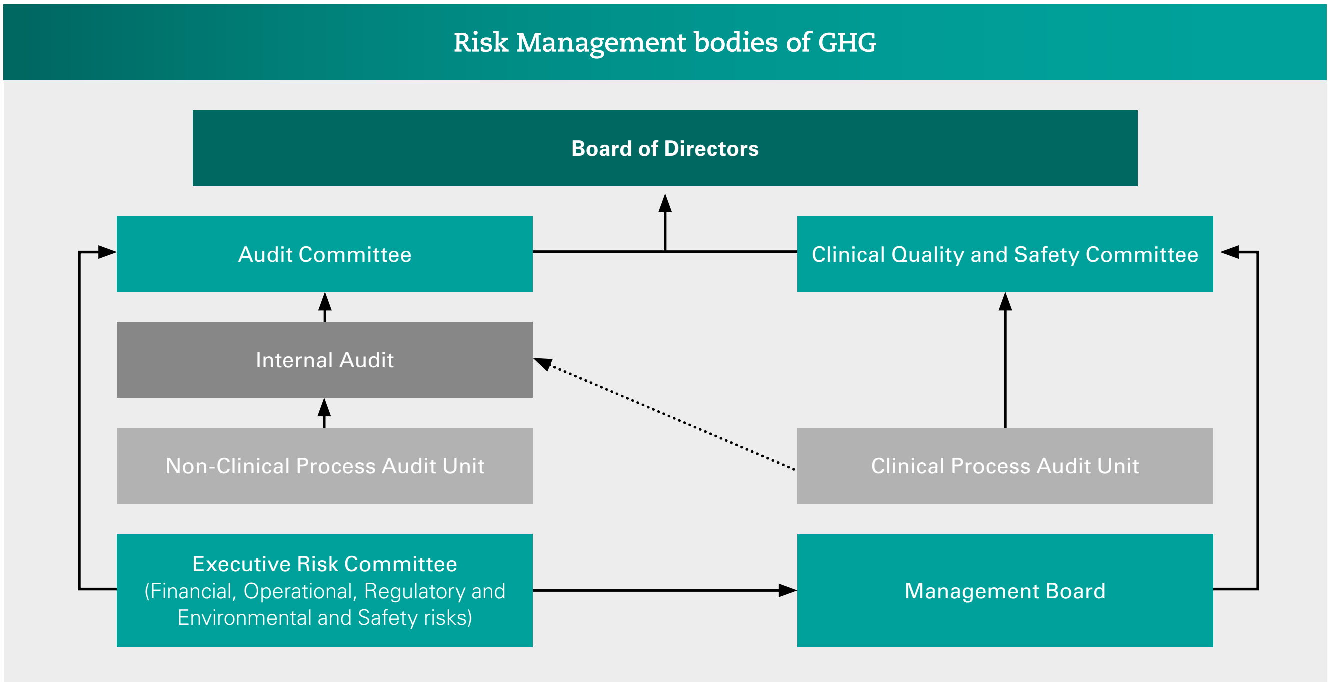
A description of these principal risks and uncertainties, in addition to key drivers and trends as well as mitigation efforts, can be found on pages 55 to 60.

The Board is also responsible for determining the nature and extent of any principal risks the Group is willing to take in order to achieve its strategic objectives.

Key elements of the Group's system of internal controls which have operated in 2019 are:

- procedures for the assessment, approval, control and monitoring of major capital projects, including acquisitions and disposals;
- a robust Board Committee structure, where each committee deals with specific aspects of the Group's affairs, and an organisational structure with clearly defined levels of authority

Risk Management continued



and division of responsibilities. In line with this approach, the Group has recently completed a reorganisation of its businesses into independently functioning operating companies, with a full set of corporate functions in each, with GHG retaining only Group support functions as well as strategic management of the Group's business. As a result of this reorganisation, the Group's healthcare services business has been divided into: referral Hospitals and Clinics businesses;

- regular reports to the Audit Committee and Clinical Quality and Safety Committee on the adequacy and effectiveness of internal control by, among others, the Head of Internal Audit, the Head of the Clinical Process Audit Unit, the Head of Clinical, the Director of the Legal Department, the Chief Risk Officer and the Chief Financial Officer;
- operational committees, including the Executive Risk Committee formed in September 2017, that have established various policies and which monitor the risk in any area of operation;
- a Remuneration Policy for the Executive Director, which is also taken into account when remunerating senior management, to motivate him and them appropriately, without incentivising disproportionate risk-taking (the Remuneration Policy can be found on the website at http://ghg.com.ge/policies)
- reviewing and monitoring the operation of the Whistleblowing Policy and procedures in place to allow staff as well as external stakeholders (such as vendors, customers, etc.) to raise concerns on a confidential or anonymous basis about possible legal, regulatory, financial reporting or other improprieties;
- a Risk Event Database ("RED") system, which collects and consolidates both actual and possible risk events across the Group, and enables risk identification, root cause analysis and assessment with increased efficiency;
- the Audit Committee's review of the quarterly, half year and full year Financial Statements and corresponding press releases; the attendance at the Audit Committee meetings of the internal auditors;
- updates, on a monthly basis, to the Management Board in relation to the Group's financial risk profile, policies, limits and ratios by the Chief Financial Officer; and
- updates, on a monthly basis, to the Management Board in relation to the Group's operational, clinical and regulatory risk profiles, policies, limits and monitoring results by the Risk department.

Internal control

Board and Board committees

As mentioned above, our Board is responsible for reviewing and approving the Group's system of internal controls, and its adequacy and effectiveness. Controls are reviewed to ensure effective management of strategic, financial, operational, clinical and compliance risk issues. Certain matters, such as the approval of the long-term objectives and strategy, the annual operating and capital expenditure budgets and significant acquisitions or disposals, among others, are reserved exclusively for the Board. The full schedule of matters specifically reserved for the Board can be found on our website at: http://ghg.com.ge/schedule-of-matters-reserved.

The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Group's risk management strategy related to the Group's internal controls and risk management system, control weaknesses, fraud or misconduct, IT, information and cyber security, compliance, corporate security and similar areas of operational, financial and compliance risks. The Audit Committee facilitates the activities of the internal and external auditors of the Group. The Audit Committee is elected and directly monitored by the independent members of the Board.

The Clinical Quality and Safety Committee reviews the Group's clinical performance and supervises clinical and medical quality and health and safety, as well as ensuring that the clinical risks are monitored, supervised and managed properly. The quality and safety risk management system is implemented by the Clinical department. The Clinical department prepares reports and analysis for the Clinical Quality and Safety Committee, and engages in discussion of the findings and risk areas for further mitigation and improvement. Reporting to the Committee takes place on a quarterly basis; however, it may be more frequent, upon identification of reportable conditions and risks. The Clinical Quality and Safety Committee defines and approves key policies and targets for the Clinical department during the year. For details of the key risk areas reported to the Audit Committee and Clinical Quality and Safety Committee in 2019, please see the corresponding Committee reports.

Financial reporting and Internal Audit department

With regard to internal controls over financial reporting, including over the Group's consolidation process, our financial procedures include a range of system, transactional and management oversight controls. The Finance department prepares detailed monthly management reports to senior management, which include analysis of our business results along with comparisons with relevant strategic plans, budgets, forecasts and prior results.

Each quarter, the Chief Financial Officer as well as the Finance team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Board. The Audit Committee also reviews the quarterly, half year and full year Financial Statements, and corresponding press releases and provides feedback to the Board.

The internal auditors attend most Audit Committee meetings and the Audit Committee meets regularly both with and without management present. The Internal Audit department reviews financial areas of risk pursuant to a programme approved by the Audit Committee. Any issues or risks arising from an internal audit review are reviewed by the Audit Committee and appropriate actions are undertaken to ensure satisfactory resolution. The Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

Clinical risk reporting and Clinical Process Audit Unit

The Clinical Process Audit Unit reviews areas of non-financial risk pursuant to an annual programme approved by the Clinical Quality and Safety Committee. Just as the internal auditors report to the Audit Committee, any issues or risks arising from the Clinical Process Audit Unit's internal audit review are reported to the Clinical Quality and Safety Committee, and appropriate actions are undertaken to ensure a satisfactory resolution.

On a day-to-day operational level, the Clinical department is in charge of the entire healthcare risk assessment and management. The healthcare risk assessment and reporting system requires the quality management group (head office and hospitals) to prepare specifically designed reports on a monthly basis, to identify the potential risks and gaps for improvement and to prepare tailored recommendations for those improvements. Risks are identified from a number of internal and external sources. Internal sources are incident reports (sentinel events, near misses, medication dispensing errors, adverse drug reactions, and injury reports), peer review activities, complaints and claims, patient and staff satisfaction surveillance reports, quality and safety measures and indicators, clinical audit and medical records). External sources include patient surveys or feedback, review reports and correction reports issued by the healthcare regulator. Through assessing the proper data and information, the Clinical department identifies whether or not each of the medical facility and the Group are in compliance with defined quality and safety goals. The Clinical department also identifies the potential financial loss attributable to medical malpractice and penalties. The clinical risk assessment and analysis process is based on the detailed study of the adverse events and analysis of the risks associated with these adverse events and their root causes.

Management Board

The Management Board has responsibility for the Group's balance sheet, income statement and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Management Board receives reports on risk management functions from each of the various departments within the Group and consolidated reports from the Risk department.

Executive Risk Committee and Risk department

The Executive Risk Committee was established in 2017. Because of the split of healthcare services business in 2019, the two separate legal entities continue to run Committees independently. Its members comprise the Executive Director, their deputies, the Director of the Legal department, the Head of Internal Audit department and employees of the Risk department. The Committee meets at least quarterly, but can also meet more frequently if needed.

The primary responsibility of the Executive Risk Committee is oversight of the Group-wide risk management framework at the executive-level as well as related compliance and governance matters, including reviewing, approving and monitoring significant policies and practices used in managing all applicable risks; and reviewing and advising on risk appetite setting, risk response strategies and stress-testing across the Group.

The Risk department was also established in 2017 to better coordinate the management of risks within the Group. Because of the split of the healthcare services business in 2019, the two separate legal entities continue to run their own Risk departments independently. The main goals of the Risk department are: performing continuous due diligence in both clinics and the head office; maintenance of the Group's risk register; implementation of risk management policies; and preparation of regular risk reports for the Executive Risk Committee. With the recent reorganisation, reorganised operating companies will continue to have their independent Risk departments with similar functions being replicated.

These bodies cover the following main categories of risks: regulatory compliance risks, operational risks, financial risks, and environmental and safety risks.

During 2019, management of the Risk Event Database ("RED") has been transferred from the Risk department to the Corporate and Physical Security department.

Whistleblowing

Our systems of internal control are also supported by our Whistleblowing Policy, which allows employees as well as external stakeholders (such as vendors, customers, etc.) to report concerns on an anonymous basis, using a 24-hour hotline or email.

In line with the most current iteration of the UK Corporate Governance Code, responsibility for approval of the Whistleblowing Policy has, since 1 January 2019, rested with the Board. The Audit Committee reviews, and recommends any changes to, the Whistleblowing Policy on an annual basis and receives reports from the Head of Corporate and Physical Security on any significant issues raised under the policy over the year.

Effectiveness review

Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit Committee and Clinical Quality and Safety Committee. This review covers all material systems, including financial, operational, clinical and regulatory compliance controls. The latest review covered the financial year ended 31 December 2019, and the period to the approval of this Annual Report and Accounts.

This year, we obtained assurance from management, Internal Audit, our external auditors and other external specialists.

The Board is able to conclude with reasonable assurance that the appropriate internal control and risk management systems were maintained throughout the year and operated effectively. The review covered the relevant emerging and principal risks, and did not identify any significant weaknesses or failings in the systems.

We are satisfied that our risk management processes and internal control systems processes comply with the UK Corporate Governance Code 2018 (the "Code") and the Financial Reporting Council ("FRC") Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Audit Committee and Board have taken into account the provisions of the revised UK Corporate Governance Code in respect of risk management and internal control processes, and these provisions and revisions have been incorporated into our processes.

Risk Management continued

Committee reports

As noted throughout this section, both the Audit Committee and the Clinical Quality and Safety Committee play an essential role in implementing effective risk management and internal control. Each Committee has described this work in their Committee report. The Audit Committee Report and the Clinical Quality and Safety Committee Report can be found on pages 84 to 90 and pages 91 to 95, respectively.

Going concern statement

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out on pages 2 to 69. To conclude on going concern, the Board of Directors analysed the Group's business activities and plans and considered operational and market factors, including the COVID-19 impact, risks and opportunities. Further, the Board assessed likely actions from the Government of Georgia and the current status of the financial covenant renegotiation process in response to the COVID-19 pandemic. Stress tests of the Group's forecasts and budgets were undertaken by management and evaluated by the Board. The stress tests included factors presented in scenario h) in the Viability statement paragraph below. After making enquiries, the Directors confirm that they have a reasonable expectation that GHG and the Group, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the Financial Statements are authorised for issue. Accordingly, they continue to adopt the going concern basis in preparing the accompanying consolidated Financial Statements.

Viability statement

Assessment of prospects

An understanding of the Group's business model and strategy are central to assessing its prospects, and details can be found on pages 10 to 15 and 34 to 39, respectively. We assess our prospects on a regular basis through strategic planning, financial planning, budgeting and forecasting of business performance. This assessment considers the Group's revenue, cash flows, committed and forecast funding, and liquidity positions and other key financial ratios. Over the last three years, the Group has grown significantly through implementation of the strategies set by management and supported by stable long-term funding, provided by both shareholders and the creditors. The Group's net revenue and EBITDA grew by 13.5% and 16.6% (excluding IFRS 16 impact) in 2019. The basis of all of the Group's strategies across all business lines is long-term sustainable growth through well-managed and sustained long-term leverage levels. None of the Group's investments are short-term and all of them are oriented towards long-term value creation for its shareholders.

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Directors are required to assess the prospects of the Company to meet its liabilities by taking into account its current position and principal risks. The Board conducted this review over a three-year period beginning 1 January 2020, being the first day after the end of the financial year to which this report relates. The Board selected this period for the following reasons: a) it considers its strategic plan, financial budgets and forecasts for a three-year period, annually; and b) it is impracticable to establish a longer planning period within the operating and macroeconomic environment.

In order to assess the Group's viability, the Board considered a number of key factors, including:

- the Group's financial and operational position, including key metrics;
- the Group's cash flows and capital allocation;
- the Board's risk appetite;
- the Group's business model and strategy as set out on pages 10 to 15 and 34 to 39;
- the Group's principal risks and uncertainties, as set out on pages 55 to 60;
- how the principal risks and uncertainties are managed;
- the effectiveness of our risk management framework and internal control processes; and
- stress-testing, as described below.

The key factors above have been reviewed in the context of our current position and strategic plan, financial budgets and forecasts assessed annually and on a three-year basis.

The viability assessment involved a risk identification process which involved recognition of the principal risks to viability that could impair the Group's business model, future performance, solvency or liquidity, excluding risks not sufficiently severe over the period of assessment. We also identified other risks which, while not necessarily severe in themselves, could escalate when combined with others, as well as risk combinations. For each risk, we considered our risk appetite and tolerance, as well as the risk proximity (how soon the risk could occur) and momentum (the speed with which the impact of the risk will be felt).

For those risks considered sufficiently severe to affect our viability, we performed stress-testing for the assessment period, which involved modelling the impact of a combination of severe and plausible adverse scenarios, including the following, in each case with the scenario taking effect immediately: a) reduction of UHC tariffs by 5% on all healthcare services in 2021; b) due to competitive pressures, a reduction of pharmaceutical prices by 3% in 2020; c) increase of working capital need from 30% to 40% of the Hospitals business and from 12% to 15% of the Pharmacy and Distribution business from 2020; d) sudden prolongation of average receivables pay-out, Days Sales Outstanding ("DSO"), by one month through a regulatory change in 2020 for the Hospitals and Clinics businesses; e) an increase in cost of funding by 3% from 2020 and an additional 3% increase from 2021; f) doubling of the Hospitals and Clinics businesses invoice correction rates from 2020; g) in the seventh scenario, all of the previous stress scenarios happening at the same time. h) In the last scenario, we have assumed possible future impact from COVID-19 virus in case of lasting crisis. We assumed that para-pharmacy revenues decrease by 20% from 1 April 2020; Clinics business revenues decrease by 25% from 1 April 2020; Hospital business revenues from elective care and outpatient services decrease by 25% from 1 April 2020; State further reduces tariffs by 10% on all healthcare services from 1 April 2020; USD-GEL exchange rate goes up to 3.4000 from 2.8677 at year-end 2019; Working capital need increases from 30% to 40% for Hospitals business and from 12% to 15% for Pharmacy and Distribution business from 2020; and Additional operating expense of GEL 3 million is needed in 2020. The stress-test scenarios were then reviewed against the Group's current and projected liquidity position, considering current committed funding.

The outcome of this modelling confirmed that none of the scenarios would compromise the Group's viability either in isolation or in combination. The stress-testing also took into account the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group is exposed. The stress-test demonstrated that no mitigating actions were required, with the exception of scenarios d) and g), but the likelihood of such scenarios were remote. Additionally, we assumed the following mitigating actions for scenario h): the company defers 2019 year results-related dividend payment until the completion of the crisis; reduces capex by GEL 10 million; and takes incremental debt of GEL 20 million.

The Directors have also satisfied themselves that they have the necessary evidence to support the statement below in terms of the effectiveness of the Group's risk management framework, and internal control processes in place to mitigate risk.

Based on the analysis described above, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period from 1 January 2020 to 31 December 2022.

Principal Risks and Uncertainties

The Board has performed a robust assessment of the principal risks facing the Group, taking into account the Group's strategic objectives, business model, operations, future performance, solvency and liquidity.

All principal risks identified by the Board may have an impact on our business strategic objectives. These principal risks are described in the table that follows, together with the relevant strategic business objectives, key risk drivers/trends and the mitigation actions we have taken. It is recognised that the Group is exposed to risks wider than those listed. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have been the subject of debate at recent Board, Audit or Clinical Quality and Safety Committee meetings. The order in which the principal risks and uncertainties appear does not denote their order of priority. It is not possible to fully mitigate against all of our risks. Any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Compliance

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
The Group operates across the healthcare ecosystem and is subject to a complex spectrum of laws, regulations and codes. The Group operates in an emerging and developing market in which legislation is evolving and there may be further changes which may affect the Group's business.	There are periodic changes to applicable regulations, including the UHC. The UHC tariffs may change from time to time Our healthcare service business includes a network of different hospitals and a nationwide chain of polyclinics, each of which must comply with extensive specific requirements, including documentation processing and maintenance requirements. The Pharmacy and Distribution and the Medical Insurance businesses has to also comply with various regulatory requirements.	We engage in constructive dialogue with regulatory and Governmental bodies, where possible, on potential changes to legislation. We have policies, procedures and controls to fulfil our compliance obligations, for example, for healthcare – Infection Control Management, Quality Management, Sentinel Event Management, Waste Management, Fire Safety Management and Radiation Safety Management.
Impact Non-compliance with applicable laws, regulations, codes, authority or regulatory requirements, including those specific to tax, insurance, pharma, diagnostics or healthcare, or the settling of disputes or lawsuits, could lead to financial detriment, penalties, increased costs of operations, censure, regulatory investigation and reputational impact. Inadequate record-keeping or documentation of medical matters and patient data could lead to medical or administrative errors and regulatory breaches, which could impact our financial performance.	Regulatory authorities (the Social Services Agency and the state agency for supervision of medical activities, drug agency, and Insurance State Supervision Service of Georgia) conduct periodic inspections of Group Companies in order to determine compliance with relevant regulatory requirements, and have imposed penalties for errors and non-compliance in the past. The Group is involved in contractual and other disputes and litigation. Georgia's existing anti-monopoly legislation may have an impact on our acquisitions as we will be required to seek prior approval from the Competition Authority to proceed with certain future acquisitions.	We have extensive process management systems in place, which aim to ensure that the processes in each Group Company are carried out to a consistent standard and in compliance with Georgian regulatory requirements. Through a team of experienced practitioners and a Quality Control Unit, we carry out regular internal audits. Their programme and audit results are reviewed by the Clinical Quality and Safety Committee every quarter. The internal inspection results are reviewed by the Audit Committee. Outcomes and changes to process are circulated throughout the Group. Through a Regulatory Risks Unit, we perform a consolidated review of all key regulatory compliance risks within the network of the Group's clinics, analyse and report on findings identified as a result of past inspections carried out by the unit as well as by the regulatory authorities, and prepare detailed action plans for individual clinics in order to mitigate risk of future non-compliance. We involve our Legal department in every material contract, contractual disputes and litigations. The Tax Unit of our Finance department follows changes in tax legislation and initiatives, checks compliance with respective rules and is involved in contract execution processes.

Principal Risks and Uncertainties continued

Clinical risk

Principal Risk/Uncertainty

Antibiotics are one of the most frequently used drugs in healthcare. Antibiotics have transformed practice in healthcare and reduced morbidity and mortality. But abuse of antibiotics has led us to the new challenges called Antimicrobial Resistance (AMR).

AMR is tightly related to the safety issues in healthcare. During their hospital stay, patients could be at risk of acquiring the hospital associated infections (HAIs) which are often multidrug resistant.

Development of AMR in hospitals significantly depends on environmental issues (hospital design, infrastructure and infection control/prevention activities).

AMR may also have a significant financial impact. So, by dealing with the AMR in hospitals, we are increasing the safety of patients and preventing financial loss.

Impact

Poorly defined Antibiotic Stewardship Programme (ASP) could result in:

- misuse, overuse or abuse of antibiotics;
- creation of bacteria resistant to antibiotics;
- creation of multidrug resistant forms;
- decreased quality of patient safety in medical facilities;
- increased consumption of hospital resources;
- undesirable impact on environment;
- damage to our reputation which may result in an inability to attract new patients or retain existing patients; and/or
- financial losses.

Key Drivers/Trends

Antibiotic Stewardship Programme (ASP) is one of the strategies used to prevent harm by healthcare companies. ASP is a well-coordinated program to preserve resources, improve antibiotic prescribing, minimise the abuse of antibiotics. An ASP programme needs multi-disciplinary approach. It should be closely connected to clinical practice and quality improvement, including infection control/prevention.

AMR became one of the top priorities of our healthcare facilities during last year. Problems to be addressed included lack of expertise among clinical staff, lab capacity and the adequacy of our data collection and reporting systems, all of which might lead to the failure of the preventive activities.

As a long-term goal, we therefore decided to implement the US Center for Disease Control and Prevention (CDC) defined ASP core elements in our hospital activities. These are: leadership commitment, accountability, drug expertise, action, tracking, reporting and education.

Introducing change in many different areas may cause difficulties in monitoring. Therefore, Intensive Care Units (ICUs) were defined as the highest risk areas in terms of AMR development and data collection, and improvement activities were focused in the ICUs.

Mitigation

AMR is a complex problem. Dealing with it requires several different interventions. Therefore, a step-wise approach was chosen for improvement. An infection control and prevention program (IPC) was the first step, which was successfully implemented in the previous years.

The second step was dedicated to antibiotics use optimisation.

We chose a dual approach – a "front-end strategy" and a "back-end strategy".

For implementation of the front-end strategy, we dedicated clinicians with antibiotics expertise, mostly critical care specialists.

The main goal was to restrict the use of third line antibiotics (Colistin, Carbapenems and 3d generation of Cephalosporins) and authorise their use through ward round discussions. The supervisory responsibility was set as a function of the Clinical Director. A position of Chief Pharmacist was set up in head office.

The measures related to antibiotics use, such as the group of antibiotics used, length of use and side effects of antibiotics, became part of the ICU quality measures set.

In addition, a group of clinicians from head office performed a clinical audit of patients' charts.

Information regarding the types of antibiotics used in ICUs, length of treatment and frequency of de-escalation was collected.

With the steps conducted thus far we believe we have created the basis for ASP. While we were waiting for these ASP basics to come into place, we decided to start quality improvement projects, and to connect all of them to antibiotics use. Three main priorities were set: Sepsis Early Goal Management, Surgery Care Improvement and Management of Community-Acquired Pneumonia. The process indicators of these pathways were set as a part of the hospital KPIs.

A multi-disciplinary approach is necessary for quality improvement. Speciality boards were set up at the beginning of the process, network-wide. By following the indicators, analysing the data and cost-effectiveness of interventions, Boards should reduce the risk and track the success.

COVID-19 (Coronavirus)

Principal Risk/Uncertainty

The recent outbreak of COVID-19 (Coronavirus) may lead to significant disruption and stretch the resources of the Georgian healthcare system which is a principal and emerging risk for the Company. The full impact of the Covid-19 pandemic on Georgia and GHG is not knowable; this report represents what we know now.

Impact

As in much of the rest of the world, the health of the country's population is at risk. As to the Group's business, this may create a spike in healthcare demand, but also creates new risks in areas such as regulatory, operational, financial and reputational. Finally, there is risk to Georgia's economy from either a prolonged country-wide or worldwide economic slowdown that may result from the disease itself or continuing efforts to fight the spread of the virus. The tourism sector has been increasingly important to the country. A prolonged slowdown could severely damage that industry, and the rest of the economy would not be spared.

Key Drivers/Trends

The increased flow of the sick may become uncontrollable. If the disease is not contained and quickly spreads very widely, our facilities could be overwhelmed, and if they are not properly disinfected, they could become transmitters of the disease. The high demand may create deficiencies in the supply chain of medical equipment and supplies, which could both increase the mortality rate and accelerate the virus's spread. Our doctors and nurses will be on the front line of treatment and the risks to their health also make them potential transmitters of the disease.

A global economic slowdown is currently underway as countries, including Georgia, impose quarantines, travel restrictions, mandated closures of businesses and similar measures. The Georgian economy is well diversified, both by sector and in terms of trading partner country dependence. It may therefore be relatively resilient, but it will not escape the effects of a prolonged global slowdown.

Mitigation

Since the spread of the COVID-19 pandemic we introduced an action plan in our network.

Currently, patients affected by COVID-19 are being managed in designated state infectious disease facilities that don't involve GHG. However, in order to prepare for potential outbreak, in case of need and in close coordination with the Government, we announced readiness to isolate four GHG hospitals across the country with properly trained medical personnel, isolated wards, intensive care and critical care units. This will limit the spread of the virus in regular hospitals.

Employees of our hospitals and clinics were given a comprehensive training session, including how to manage patient flow, based on Georgian NCDC recommendations. Special triages were put at the entrances of our hospitals to manage the flow properly, and visitors' entrances have been closed. The call centres have been briefed about pre-screening of patients. Educational materials were distributed, and are accessible in facilities and online. Personal protection equipment has been procured and made available in our facilitates, with the respective instructions and training. Process deficiencies were identified, and we are working with our key vendors on a daily basis to ensure uninterrupted furnishing of materials and supplies, taking account of the current limited supplies of certain goods.

We are in constant contact with Georgian NCDC and awaiting further instructions, should additional activities become necessary.

To ensure performance and health of employees at an organisational level, all of our businesses' head offices have moved to remote working. We have put a different contingency plan for different units, such as Hospitals business, Pharmacy and Distribution business and central warehouse. We are also closely monitoring and managing our stock level, to ensure having enough medicines and major consumables in the country, in case of outbreak.

The Government has certain tools to help mitigate the economic threat to a degree, and to try to maintain economic growth. We continue to monitor the Coronavirus outbreak and to consider our continued business resilience.

Principal Risks and Uncertainties continued

Concentration of revenue

Principal Risk/Uncertainty

Our healthcare services business depends on revenue from the Georgian Government and a small number of private insurance providers.

Payments by the Government under UHC may be delayed, whilst the private insurance companies we work with may experience financial difficulties and fail, or fail to pay the claims we submit to them, for healthcare services provided to patients covered by their services.

Impact

Reduction of prices or increased time taken to pay, including delayed payment under the UHC, would affect the revenues, receivables outstanding and profitability of the Group.

Key Drivers/Trends

Our ability to obtain favourable prices will depend in part on our ability to maintain good working relationships with private insurance providers, and may be impacted by any changes to state-funded healthcare programmes.

Mitigation

The UHC remains a significant priority for the Government. Government expenditure on healthcare in 2020 is budgeted at GEL 1,134 million, which represents c.8% of the approved State budget for 2020.

We monitor the macroeconomic environment in Georgia and budgetary performance of the Government to assess the forecasted future cash flows from the State.

We actively seek to increase our share in the outpatient and planned medical services markets, which are funded either by patients out-of-pocket or by private insurance (including by our own medical insurance provider, the largest in the country), thus reducing our dependence on the State insurance programme.

We have diversified our portfolio by the addition of pharmaceutical, retail and wholesale business lines.

Recruitment and retention of skilled medical practitioners

Principal Risk/Uncertainty

Our performance depends on our ability to recruit and retain high-quality doctors, nurses and other healthcare professionals.

The success of our healthcare services depends, in part, on our ability to recruit, train and retain an appropriate number of highly skilled physicians, nurses, technicians and other healthcare professionals in order to deliver international standards of care, offer greater diversity of services to better satisfy our population's needs and provide the latest treatments using technologically advanced equipment.

Impact

If we are unable to effectively attract, recruit and retain qualified doctors, nurses and other healthcare professionals, our ability to provide efficient and diverse healthcare services and sophisticated treatments and retain and attract new patients, as well as our business and results of operations, may be adversely affected.

Key Drivers/Trends

There is a shortage of suitably skilled doctors, nurses and other healthcare professionals in Georgia.

Our hospital and outpatient network has grown rapidly during the last several years, including 2019, and requires human resources with the skills and experience to service it across a range of specialities.

Mitigation

We prioritise investment in recruitment and talent development programmes, training and retention of our professionals. We operate incentive schemes, which for example offer bonuses and enhanced benefits. We have successfully attracted a number of western-trained Georgian doctors to our Group and are continuing our efforts to that end.

We continue to expand the size of both our nursing college and residency programme, and to broaden the specialities covered in order to source specialists in the fields where we have a shortage of doctors. Incentives are offered to graduates of the programme to accept employment within our network.

Engagement with medical schools and nursing programmes, as well as our scholarship programmes, enable us to recruit talented graduates.

We are committed to expanding our programmes and increasing our capacity. Talent and training development programmes, which enhance the skills of our experienced specialist doctors and nurses and create an internal talent pipeline of younger doctors and nurses, have been successful in expanding our specialist capability. We also offer programmes for doctors to study abroad as well as receive on-the-job training by our own specialists and doctors from abroad. We continue to expand our training and development programmes to a larger group of doctors and nurses.

Currency and macroeconomic

Principal Risk/Uncertainty

The Group is exposed to foreign currency risk, as a significant proportion of the medical equipment and pharmaceuticals we purchase is denominated in US dollars and/or Euro, but our revenues are in Lari.

A portion of our borrowings, particularly from development financial institutions, is foreign currency denominated.

The Group also faces macroeconomic risk. There could be developments which have an adverse effect on the country, regional or macro economy such as reduced GDP or significant inflation.

Impact

Depreciation of the Lari against the US dollar and/or Euro, and/or negative macroeconomic developments, may have an adverse effect on our business including putting adverse pressure on our business model, revenues, financial position and cash flows.

Key Drivers/Trends

Exchange rate fluctuations have persisted throughout 2019, with GEL depreciating by over 7.1% y-o-y against USD and by 4.5% against Euro as of 31 December.

Annual inflation rate was 7% in December and 4.9% in January-December 2019, significantly higher than the 3% target, due to inflationary expectations and a one-off excise rate tax increase. NBG hiked the monetary policy rate to 9.0% to fight off inflationary expectations.

The GDP story in Georgia remained positive in 2019. Real GDP growth is 5.1% in January-October according to preliminary data.

The Georgian Government's fiscal position continues to be strong, with the overall deficit well within the fiscal rule bounds.

See the discussion of the Coronavirus on page 57 for a discussion of this emerging risk for 2020.

Mitigation

We actively monitor market conditions and our currency positions, and performs stress and scenario tests in order to assess our financial position and adjust strategy accordingly.

Foreign currency exposure is actively hedged by foreign currency forward contracts, as well as regular operational decisions.

We adjust our prices to reflect the fluctuations in foreign currency exchange rates and reduce their impact where possible. The Group takes into account the volatility of the Lari in pricing discussions with counterparties.

In 2019, we remained focused on maintaining mostly local currency borrowings. As of year end 2019, more than 75% of Group's borrowings is denominated in local currency.

Information technology and operational

Principal Risk/Uncertainty

We face information technology and operational risk.

A cyber-attack, security breach or unauthorised access to our systems could cause important or confidential data to be misappropriated, misused, disseminated or lost.

In addition, improper access or information misappropriation may lead to insider trading or other illegal actions by employees or others.

Software or network disruption may also cause the Group to experience lost revenue, failed customer transactions or non-timely submission of mandatory or other reports.

Non-recurring operational risks include incurring loss or unexpected expenses from system failure, human error, fraud or other unexpected events.

Impact

Any of the above could lead to disruption of our business and operations, affect patient and customer loyalty, subject us to State and Governmental investigation, litigation, damages, penalties and/or reputational damage.

Key Drivers/Trends

We hold confidential data about our patients and customers – given the nature of our healthcare services, we must be vigilant to guard data privacy.

Cyber security threats are increasing year-on-year.

The Group has expanded and has increasingly complex operations to manage, including the pharmaceutical business acquired in the previous years.

Mitigation

The Information Security and Cyber Security department updated its policy and agenda in 2019 by extending the scope of its functions at Group-level. We thoroughly follow our strategy and action plan each year, implement new features and processes that further help decreasing level of the risk, and close identified gaps.

We have further reinforced our centralised, GHG-wide IT infrastructure (hardware and network), which has enhanced the Group's overall information and cyber security level. In 2019, we initiated upgrading our firewall and our network significantly. The process is ongoing.

We continue to design and implement new business processes and risk management structures to better manage the business and to help mitigate our operational risks.

Internal Audit conducts regular reviews of IT controls, such as the policies for information storage, availability and access, while updating its assessment of risks and recommendations. Internal Audit reports to the Audit Committee on its findings.

Principal Risks and Uncertainties continued

Regional tensions

Principal Risk/Uncertainty

The Georgian economy and our business may be adversely affected by regional tensions and instability.

The Group's operations are located in, and its revenue is sourced from, Georgia. The Georgian economy is dependent on neighbouring economies, in particular Russia, Turkey, Azerbaijan and Armenia, which are key trading partners.

There has been ongoing geopolitical tension, political instability, economic instability and military conflict in the region, which may have an adverse effect on our business and financial position.

Impact

The prolongation or escalation of political instability, geopolitical conflict, economic decline of Georgia's trading partners and any future deterioration of Georgia's relationship with Russia, including in relation to border and territorial disputes, may have a negative effect on the political or economic stability of Georgia. This in turn may have an adverse effect on our business, including putting adverse pressure on our business model, our revenues and our financial position.

Key Drivers/Trends

Russian troops continue to occupy the Abkhazia and the Tskhinvali/South Ossetia regions, and tensions between Russia and Georgia persist. Russia is opposed to the eastward enlargement of NATO, potentially including former Soviet republics such as Georgia.

Russia imposed an air travel ban on flights between Russia and Georgia after the mass anti-Russia protest in Tbilisi in 2019, which started after a Russian MP delivered the speech from the PM's chair. The air travel ban remains in effect to this date.

Relations between Turkey and the United States remain uncertain. Risks of sanctions intensified after Ankara's purchase of the Russian S-400 missile system.

Relations between Russia and Turkey are also strained due to the conflict in Syria.

Conflict between Azerbaijan and Armenia is ongoing.

Mitigation

We actively monitor risks related to regional tensions and political instability, and develop responsive strategies and action plans.

Export market diversification continues, both for goods and services. FTAs and increased number of direct flights, in line with the active marketing campaign support diversification of foreign currency inflows.

The impact of the air travel ban was softer than previously expected. The growth rate of the number of tourists' growth declined but growth remained positive even after the travel ban, highlighting Georgia's resilience towards the negative external shocks.

Financial Overview

Discussion of the Group results

Significant events, accounting change and legislative developments

- **Changes in UHC.** On 5 November 2019, the Georgian Government introduced changes to the Universal Healthcare Programme reimbursement mechanism, effective from 21 November 2019. The changes cover mainly the Tbilisi and Kutaisi regions, which have developed an oversupply of beds as a result of the addition of a number of small hospitals in recent years. According to the new initiative, the Government has reduced certain tariffs on intensive care and cardiac services to equate them with tariffs set for the rest of the regions. We estimate that the revised level of reimbursement for these services may lead to a reduction in our Hospitals business revenues by approximately GEL 12 million and gross profit by GEL 7 million in 2020. The change may drive more rapid market consolidation in Tbilisi and Kutaisi, improving efficiency and quality of service in the country.
- **New pension reform.** In January 2019, a new pension system became mandatory in Georgia. Participation is mandatory for employees under the age of 40 and optional for employees older than 40 at that date. Each employee contributes 2% of their income to an individual retirement account, which then benefits from further 2% contributions from both the employer, and (subject to ceilings based on income) the Government. The Group participates in this programme. The total cost to the Group in 2019 was approximately GEL 4.3 million.
- **Lari currency depreciation.** In 2Q19, the Georgian Lari started to depreciate and devalued by more than 6% against both, the US dollar and the Euro. In 3Q19, Lari depreciated by a further 3.0% against the US dollar but appreciated against the Euro by 1.1%. In 4Q19, Lari appreciated by 3% against the US dollar and a further 0.6% against the Euro. The movements in exchange rates led to foreign currency exchange loss for 2019 (excluding the IFRS 16 effect), mainly due to the revaluation of foreign currency denominated payable balances of the Pharmacy and Distribution business.
- **IFRS 16 impact.** The Group adopted IFRS 16 "Leases" from 1 January 2019. The key change arising from IFRS 16 is that rent expense is reclassified from operating expense to interest and depreciation expense. The IFRS 16 impact on Group's EBITDA was positive GEL 21.3 million in 2019, out of which the Pharmacy and Distribution business accounted for GEL 18.9 million. The impact on full year net profit was negative at GEL 7.6 million, out of which GEL 4.6 million is attributable to foreign exchange loss on the revaluation of the finance lease liabilities balance. About 85% of the finance lease liabilities balance or about GEL 77 million as of December 2019 represents foreign currency denominated leases, the value of which increased in line with the depreciation of the national currency during 2019. The Discussion of the Group Results is on numbers including IFRS 16 impact. As the impact is solely the result of the accounting change, we do not comment on it in the Discussion of Segments Results although the full effects are reflected in the accounts. Assets and liabilities also increased by the amount of discounted cash flows of future rent payments. Below in this report, to allow for comparisons, the numbers are disclosed with and excluding IFRS 16.
- **New Bonds.** On 6 November 2019, the Hospitals business completed the public placement of GEL 50 million unsecured local bonds due 2024 (the "Bonds") on the Georgian market. The Bonds bear interest at a floating rate of 310 basis points above the National Bank of Georgia refinancing rate. This is the historically lowest margin floating rate corporate bond issued on the Georgian market. The proceeds were used to refinance higher cost borrowings, and partially offset the increase in NBG's refinancing rate described on page 62.

Income statement, *GHG consolidated*

GEL thousands, unless otherwise noted	**2019**	2018	Change, Y-o-Y
Revenue, gross	**963,078**	849,917	13.3%
Corrections & rebates[1]	**(2,520)**	(3,611)	-30.2%
Revenue, net	**960,558**	846,306	13.5%
Costs of services	**(652,993)**	(577,705)	13.0%
Gross profit	**307,565**	268,601	14.5%
Salaries and other employee benefits	**(94,510)**	(84,509)	11.8%
General and administrative expenses *excluding IFRS 16 impact*	**(63,140)**	(54,436)	16.0%
Impairment of receivables	**(4,322)**	(4,448)	-2.8%
Other operating income	**8,627**	7,066	22.1%
EBITDA *excluding IFRS 16*	**154,220**	132,274	16.6%
IFRS 16 impact on EBITDA[2]	**21,320**	–	NMF
Depreciation and amortisation *excluding IFRS 16*	**(36,365)**	(33,883)	7.3%
Depreciation and amortisation	**(54,972)**	(33,883)	62.2%
Net interest income (expense) *excluding IFRS 16*	**(42,273)**	(39,470)	7.1%
Net interest income (expense)	**(47,987)**	(39,470)	21.6%
Net gains/(losses) from foreign currencies *excluding IFRS 16*	**(3,813)**	(2,879)	32.4%
Net gains/(losses) from foreign currencies	**(8,392)**	(2,879)	NMF
Net non-recurring income/(expense)	**(1,053)**	(2,187)	-51.9%
Profit before income tax expense	**63,136**	53,855	17.2%
Income tax benefit/(expense)	**(1,586)**	(616)	157.5%
Profit for the period *excluding IFRS 16*	**69,130**	53,239	29.8%
Profit for the period	**61,550**	53,239	15.6%

1 The line includes corrections of invoiced amounts resulting from errors and/or omissions by doctors and other staff (absence of signatures, incorrect codes etc.), and rebates which represent price corrections to clients at GHG's discretion. Rebates are provided in rare circumstances, and in 2019 and 2018 the portion of rebates was close to zero.

2 Represents IFRS 16 impact on General and administrative expenses.

Financial Overview continued

Gross revenue

We delivered double-digit revenue growth mainly driven by double-digit growth in the Pharmacy and Distribution business, followed by all other GHG segments.

In 2019, the Group's revenue distribution across its segments was: 59% from Pharmacy and Distribution, 28% from Hospitals, 8% from Medical Insurance, 4% from Clinics, and the remaining 1% from the newly added Diagnostics business. By payor mix: 54% of the Group's total revenue was from out-of-pocket payments[1]; 23% from UHC payments; and 23% from other sources.

Gross profit

The Group continued to increase gross profit and improved its gross margin by 30 bps y-o-y, posting 31.9% in 2019, major driver of which was the Clinics business, improving its margin by 220 bps.

Pension reform increased the Group's salary expenses by GEL c.4.3 million in 2019. Despite this, as a result of well-managed efficiency and cost control measures, the Group posted positive operating leverage of 2.0 ppts, major drivers of which were the Clinics and Pharmacy and Distribution businesses.

EBITDA

The Group EBITDA increased by 32.7% y-o-y and reached GEL 175.5 million in 2019, out of which GEL 21.3 million is attributable to the IFRS 16 impact on General and administrative expenses explained on page 61.

Excluding IFRS 16 impact the Group also delivered solid full year EBITDA growth, up 16.6% y-o-y. The Hospitals business was the main contributor to the Group's 2019 EBITDA, contributing 49% in total, with a 25.6% EBITDA margin. The next largest contributor was the Pharmacy and Distribution business, with a 42% share, posting a double-digit EBITDA margin of 10.6%. Our Clinics and Medical Insurance businesses contributed 6% and 3% to the Group's 2019 EBITDA, respectively. For the year, the Clinics business posted significant increase in its EBITDA margin, up 4.5 ppts, now reaching 19.9%.

Depreciation and amortisation

The Group depreciation expense was up 62.2% for the year, out of which 54.9% increase relates to IFRS 16 impact. Excluding IFRS 16 accounting impact, the slight movement in y-o-y depreciation expense (up 7.3%) mainly relates to small investments by all segments in different capital expenditure projects, such as launching new services in our healthcare facilities and opening new pharmacies.

Net interest expense

The interest expense (up 21.6% y-o-y) was also affected by the IFRS 16 impact. Excluding this accounting impact, the Group interest expense was up 7.1% y-o-y, due to the tightened monetary policy. National Bank of Georgia increased refinancing rate by 250 bps since the beginning of September 2019 (from 6.5% to 9.0%), due to continuing inflationary pressure. Though the Group borrowed funds balance decreased in 2019 (down 6.9% y-o-y), 75% of the business' borrowings bear interest at a floating rate, increasing its interest expense.

Loss from foreign currencies

Out of GEL 8.4 million foreign currency loss in 2019, GEL 4.6 million relates to the revaluation of finance lease liability balance, arising from IFRS 16 adoption. Excluding IFRS 16 impact, the movement in foreign currency gain/loss is mainly attributable to the Pharmacy and Distribution business. About 70% of inventory purchases in the Pharmacy and Distribution business are denominated in foreign currency: c.40% in EUR and c.30% in USD. Overall, in 2019 the local currency devalued by 7.1% against USD and 4.5% against EUR, translating into the Group's full year FX loss excluding IFRS 16 impact of GEL 3.8 million.

Profit

The Group posted 15.6% increase in profit in 2019. Excluding IFRS impact, the Group profit growth was 29.8% in 2019, despite a higher FX loss than in 2018.

Selected balance sheet items, *GHG consolidated*

GEL thousands, unless otherwise noted	**31 Dec 19**	31 Dec 18	Change, Y-o-Y
Total assets, of which:	**1,351,207**	1,224,109	10.4%
Cash and bank deposits	**32,005**	47,961	-33.3%
Receivables from healthcare services	**130,212**	106,841	21.9%
Receivables from sale of pharmaceuticals	**17,508**	20,440	-14.3%
Insurance premiums receivable	**26,892**	23,643	13.7%
Property and equipment	**671,658**	672,841	-0.2%
Right of use assets	**84,115**	8,799	NMF
Goodwill and other intangible assets	**162,247**	152,298	6.5%
Inventory	**174,462**	146,164	19.4%
Prepayments	**12,289**	13,064	-5.9%
Other assets	**39,819**	32,058	24.2%
Total liabilities, of which:	**748,933**	665,475	12.5%
Borrowed funds	**363,585**	390,390	-6.9%
Accounts payable	**128,700**	105,092	22.5%
Insurance contract liabilities	**25,489**	22,544	13.1%
Lease liabilities, of which	**90,791**	8,676	NMF
IFRS 16 impact	**82,115**	–	NMF
Other liabilities	**140,368**	138,773	1.1%
Total shareholders' equity attributable to:	**602,274**	558,634	7.8%
Shareholders of the Company	**530,899**	492,550	7.8%
Non-controlling interest	**71,375**	66,084	8.0%

1 Includes: Hospitals and Clinics out-of-pocket revenue, Pharmacy and Distribution, Medical Insurance and Diagnostics businesses' revenue from retail.

- In 2019, the Group changed its accounting policy with respect to PPE and transitioned from the revaluation model to the cost model, where assets are carried at initial cost less accumulated depreciation. There was a negative effect on the PPE and Total shareholder's equity balance of GEL 16.4 million. The Group retrospectively restated all prior periods presented.
- In 2019, the Group classified assets that emerged from adoption of IFRS 16 in a new, "Right of use assets", caption.
- The decrease in the balance of borrowed funds in 2019 is mainly attributable to the Pharmacy and Distribution business. Due to increased refinancing rate in the second half of the year, the business extended the payment terms to suppliers and prepaid its borrowings, which resulted in an accounts payables balance increase for the same period.

Statements of cash flows, *GHG consolidated*[1]

GEL thousands, unless otherwise noted	2019	2018	Change, Y-o-Y
EBITDA	**154,220**	132,274	16.6%
Net cash flows from operating activities	**125,201**	99,580	25.7%
EBITDA to Cash conversion	**81.2%**	75.3%	
Net cash used in investing activities, of which:	**(47,947)**	(85,347)	-43.8%
Purchase of PPE and intangibles	**(41,978)**	(70,123)	-40.1%
Net cash flows from financing activities	**(93,056)**	(26,917)	245.7%
Effect of exchange rate changes	**(1,935)**	(2)	NMF
Net increase (decrease) in cash and cash equivalents	**(17,737)**	(12,686)	39.8%
Cash at period, beginning	**36,154**	48,840	-26.0%
Cash at period, ending	**18,417**	36,154	-49.1%
Bank deposits, beginning	**11,807**	14,768	-20.1%
Bank deposits, ending	**13,588**	11,807	15.1%
Cash and bank deposits, beginning	**47,961**	63,608	-24.6%
Cash and cash deposits, ending	**32,005**	47,961	-33.3%

Cash flows from operating activities. Net cash flows from operating activities increased in 2019 on the back of stronger EBITDA and a substantially improved EBITDA to cash conversion ratio (up 5.9% to 81.2%). As the newly opened facilities and services progress towards their run rate, the benefits of these projects have begun to materialise, including the gradual reduction in working capital needs.

Cash flows from investing activities. Net cash used in investing activities continues to decline. 2018 was the final year of our major investment programme and investment volume slowed further in 2019 (outflow for purchase of PPE and intangibles down 40.1% y-o-y) as the projects completed. Purchase of PPE and intangibles mainly reflects our investments in new medical services, opening new pharmacies, as well as investment in the Group's strategic projects such as medical tourism, lab and beauty retail markets development, and investing in different IT and software development projects. In 2019, net cash used in investing activities also includes GEL 5.2 million (GEL 12.9 million in 2018) payment of holdback for the Pharmacy and Distribution business acquisition.

Cash flows from financing activities. With our improved operational cash flow and lower capital investment requirements, the Group has stabilised needs for borrowings and started to repay its loans. Net outflow from financing activities reflects reduction of borrowings balance by GEL 26.8 million since 31 December 2018 (down 6.9%), interest payments, the Group's dividend payment of GEL 7 million and the dividend paid to non-controlling interest shareholders.

The overall effect resulted in cash and bank deposits at 31 December 2019 of GEL 32.0 million.

Discussion of segment results

The segment results discussion is presented for Hospitals, Clinics, Pharmacy and Distribution, Medical Insurance and Diagnostics businesses.

In order to permit meaningful comparisons between reporting periods, Discussions of Segments Results below for each business line are on the numbers excluding the IFRS 16 impact. Each financial table, on the other hand, shows both – the results with and without IFRS 16 impact. We are adopting this convention for 2019 only because 2018 figures have not been restated on an IFRS 16 basis.

Discussion of Hospitals business results

Following the split of our healthcare services business, we revised the classification of our hospitals and clinics in 2019. Three of our clinics became sufficiently large to merit hospitals classification, and one of our facilities previously reported as a hospital was reclassified as a clinic due to the nature of services offered. For comparison purposes, we discuss our hospitals and clinics results for both 2019 and 2018 reporting periods according to the new structure.

1 Statement of cash flows is presented excluding IFRS 16 impact.

Financial Overview continued

Income statement, *Hospitals business*

GEL thousands, unless otherwise noted	2019	2018	Change, Y-o-Y
Hospitals revenue, gross	**291,237**	268,271	8.6%
Corrections & rebates	**(2,206)**	(3,060)	-27.9%
Hospitals revenue, net	**289,031**	265,211	9.0%
Costs of Hospitals business	**(169,286)**	(154,151)	9.8%
Gross profit	**119,745**	111,060	7.8%
Salaries and other employee benefits	**(31,363)**	(28,322)	10.7%
General and administrative expenses *excluding IFRS 16*	**(14,169)**	(13,862)	2.2%
Impairment of receivables	**(4,152)**	(4,449)	-6.7%
Other operating income	**4,631**	5,562	-16.7%
EBITDA *excluding IFRS 16*	**74,692**	69,989	6.7%
EBITDA margin *excluding IFRS 16*	**25.6%**	26.1%	
IFRS 16 impact on EBITDA[1]	**578**	–	NMF
Depreciation and amortisation *excluding IFRS 16*	**(27,035)**	(25,483)	6.1%
Depreciation and amortisation	**(27,839)**	(25,483)	9.2%
Net interest income (expense) *excluding IFRS 16*	**(27,000)**	(23,563)	14.6%
Net interest income (expense)	**(27,200)**	(23,563)	15.4%
Net gains/(losses) from foreign currencies *excluding IFRS 16*	**(714)**	(136)	NMF
Net gains/(losses) from foreign currencies	**(1,075)**	(136)	NMF
Net non-recurring income/(expense)	**(816)**	(1,488)	-45.2%
Profit before income tax expense	**18,340**	19,319	-5.1%
Income tax benefit/(expense)	**–**	(35)	NMF
Profit for the period *excluding IFRS 16*	**19,127**	19,284	-0.8%
Profit for the period	**18,340**	19,284	-4.9%

Revenue, *Hospitals*
Our Hospitals business revenue increased moderately, as by the year end it was affected by a new Government regulation introduced in November 2019, described on page 61. The impact of this change, effective since 21 November, was approximately GEL 1.5 million on Hospitals business revenue in the fourth quarter. Additionally, due to the UHC budget overspending, at the end of 2019 Social Service Agency ("SSA") delayed the issuance of guarantee letters for planned treatments for patients, leading to the reduction of elective care services performed at our hospitals. Having reduced the pressure on the 2019 budget overspend, starting form 2020, SSA renewed the issuance of guarantee letters for the patients.

The main driver of the business' full year revenue growth was Caucasus Medical Centre (formerly Regional Hospital or Deka, fully opened in March 2018), which continues to make good progress in its ramp-up phase. CMC posted a 83.4% y-o-y increase in full year revenues, and an occupancy rate of 37.9% in 4Q19. By posting 22.4% EBITDA margin in 4Q19, the hospital is nearing its mature level. Our other hospital that is still in its roll-out phase, Tbilisi Referral Hospital (formerly Sunstone, fully opened in December 2017), also contributed to the business' full year revenue growth, up 27.6% y-o-y, with occupancy rate of 46.3%.

Revenue by sources of payment in hospitals

(GEL thousands, unless otherwise noted)	2019	2018	Change, Y-o-Y
Hospitals revenue, net	**289,033**	265,211	9.0%
Government-funded healthcare programmes	**197,528**	179,470	10.1%
Out-of-pocket payments by patients	**71,966**	68,027	5.8%
Private medical insurance companies, of which	**19,539**	17,714	10.3%
GHG medical insurance	**8,319**	5,131	62.1%

All payment sources contributed to our revenue growth. The Government-funded healthcare programme remains the main contributor, accounting for c.68%[2] in total revenue of the Hospitals business. The contribution from private medical insurance is mainly driven by the substantial increase in revenues from GHG's own medical insurance clients, translating into increased claims retention rate within the Group for inpatient services, up 210 bps.

Gross profit, *Hospitals*

Cost of hospitals as % of revenue	FY19	FY18	Change, Y-o-Y
Direct salary rate	**35.1%**	35.3%	-0.2 ppts
Materials rate	**17.0%**	16.3%	+0.7 ppts
Gross margin	**41.1%**	41.4%	-0.3 ppts

Despite the new pension reform (described on page 61 above in more detail), which increased our cost of salaries and other employee benefits by c.2%, we managed to maintain direct salary rate in the range of c.35%. The increase in the materials rate reflects the nature of services performed in our two newly launched flagship hospitals, performing high-tech medical procedures, having higher materials rate than the business average. Excluding the effect of newly launched hospitals, the materials rate remained well-controlled at 15.1% in 2019, down 30 bps y-o-y. The increased cost of materials and other supplies, as well as cost of utilities and other – also due to the ramp-up phase of newly launched hospitals – slightly subdued the business' gross margin.

Operating expenses *excluding IFRS 16, Hospitals*
Business expansion and the new mandatory pension reform drove the increases in salaries and other employee benefits, while general and administrative expenses (excluding IFRS 16 impact) were well controlled throughout the year, up only 2.2% y-o-y, in 2019. The decrease in FY19 other operating income reflects the transfer of the hospitals centralised medicine procurement entity to the GHG Pharmacy and Distribution business in 2019.

1 Represents IFRS 16 impact on General and administrative expenses.
2 Government-funded healthcare programmes revenue share in total revenues from hospitals is higher compared with the same share in revenues from healthcare services that we used to report (which now, due to the split of hospitals and clinics results, are reported separately). This is because UHC mostly covers inpatient services, while the revenue share from Government in our Clinics business is lower, at c.55%, due to the limited coverage of outpatient services from UHC that our polyclinics provide.

EBITDA *excluding IFRS 16, Hospitals*
All of the above translated into EBITDA growth of 6.7 ppts in 2019. As our two new hospitals make progress in their ramp-up phases and improve their margins, the quarterly EBITDA margin of the overall business was up 60 bps y-o-y, to 27.0%. However, full year EBITDA margin was down 50 bps and stood at 25.6%, mainly due to the: (1) new pension reform, that added GEL 0.7 million and GEL 2.7 million in quarterly and full year salary expense and translated in c.100 bps reductions in respective EBITDA margins; (2) changes in UHC; (3) decrease in 2019 other operating income explained above; and (4) roll-out phase of the newly opened facilities. Excluding the dilutive effect of roll-outs, despite the new pension reform, the Hospitals business posted strong EBITDA margin of 28.2% in 2019.

Profit *excluding IFRS 16, Hospitals*
The 6.1% y-o-y increase in depreciation and amortisation expense in 2019 reflects investments in new medical services. Increased interest expense, despite a slight reduction in the business' borrowings balance, reflects the refinancing rate increase and is explained in more detail on page 62. The 2019 loss on foreign currency are explained on page 62.

Operational highlights:
- Our adjusted hospital bed occupancy rate[1] was at 61.3% 2019 (60.8% in 2018).
- The average length of stay at hospitals[2] was at 5.4 in 2019 (5.4 days in 2018).

Discussion of Clinics business results[3]

Income statement, *Clinics business*

GEL thousands, unless otherwise noted	2019	2018	Change, Y-o-Y
Clinics revenue, gross	**44,413**	38,322	15.9%
Corrections & rebates	**(314)**	(551)	-43.0%
Clinics revenue, net	**44,099**	37,771	16.8%
Costs of Clinics business	**(24,191)**	(21,450)	12.8%
Gross profit	**19,908**	16,321	22.0%
Salaries and other employee benefits	**(7,315)**	(6,623)	10.4%
General and administrative expenses *excluding IFRS 16*	**(4,670)**	(3,904)	19.6%
Impairment of receivables	**(130)**	(139)	-6.5%
Other operating income	**1,057**	233	NMF
EBITDA *excluding IFRS 16*	**8,850**	5,888	50.3%
EBITDA margin *excluding IFRS 16*	**19.9%**	15.4%	
IFRS 16 impact on EBITDA[4]	**1,398**	–	NMF
Depreciation and amortisation *excluding IFRS 16*	**(5,307)**	(5,106)	3.9%
Depreciation and amortisation	**(6,858)**	(5,106)	34.3%
Net interest income (expense) *excluding IFRS 16*	**(4,057)**	(3,933)	3.2%
Net interest income (expense)	**(4,566)**	(3,933)	16.1%
Net gains/(losses) from foreign currencies *excluding IFRS 16*	**(174)**	(34)	NMF
Net gains/(losses) from foreign currencies	**(1,018)**	(34)	NMF
Net non-recurring income/(expense)	**(100)**	180	NMF
Profit before income tax expense	**(2,294)**	(3,005)	-23.7%
Income tax benefit/(expense)	**–**	(2)	NMF
Profit for the period *excluding IFRS 16*	**(788)**	(3,007)	-73.8%
Profit for the period	**(2,294)**	(3,007)	-23.7%

Revenue, *Clinics*
Our Clinics business posted robust revenue growth driven by double-digit revenue growth in both, community clinics and polyclinics.

Revenue by types of clinics

(GEL thousands, unless otherwise noted)	2019	2018	Change, Y-o-Y
Clinics revenue, net	**44,099**	37,771	16.8%
Polyclinics	**23,115**	18,854	22.6%
Community	**20,984**	18,917	10.9%

In 2019, 52% of the clinics' revenue came from polyclinics and 48% from community clinics.

The growth in revenue from polyclinics was fully organic, driven by the initiation of new services such as dental and an increased number of registered patients in Tbilisi. By adding c.47,000 patients in 2019, the business became the market leader by number of registered patients, impressive growth of which is summarised in the following table.

	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19
Number of registered patients	126,000	146,000	157,000	**169,000**	**175,000**	**193,000**

1 Adjusted to exclude the Tbilisi Referral Hospital and Caucasus Medical Centre; the calculation also excludes emergency beds.
2 The calculation excludes emergency beds.
3 Under the Group's new structure, the Clinics business results now includes community clinics and polyclinics.
4 Represents IFRS 16 impact on General and administrative expenses.

Financial Overview continued

We will continue to pursue our polyclinics expansion strategy to consolidate our position as the largest provider in the highly fragmented outpatient market in Georgia through organic growth and further acquisitions. The y-o-y increase in revenue from community clinics, which play a feeder role for the referral hospitals, was also fully organic.

Revenue by sources of payment in Clinics

(GEL thousands, unless otherwise noted)	2019	2018	Change, Y-o-Y
Clinics revenue, net	**44,099**	37,771	16.8%
Government-funded healthcare programmes	**24,135**	21,178	14.0%
Out-of-pocket payments by patients	**12,184**	11,485	6.1%
Private medical insurance companies, of which	**7,780**	5,108	52.3%
GHG medical insurance	**7,167**	4,451	61.0%

The main contributor to clinics revenue growth was Government-funded healthcare programmes, accounting for a c.55% share in total revenue from clinics in both periods. The increase in out-of-pocket payments is attributable to the polyclinics business, being up 7.6% in 2019 (out-of-pocket payments in community clinics, where the main part of the revenue is generated from UHC, were flat). The solid growth in clinics revenue from private insurance companies is due to the increased number of GHG insured clients, who prefer to use our polyclinics, due to the different incentives such as direct settlement of claims and quality of care.

Gross profit, *Clinics*

Cost of clinics as % of revenue	2019	2018	Change, Y-o-Y
Direct salary rate	**34.7%**	36.3%	-1.6 ppts
Materials rate	**6.1%**	6.3%	-0.2 ppts
Gross margin	**44.8%**	42.6%	+2.2 ppts

Despite the new pension reform, as a result of efficiency and cost control measures the direct salary rate improved significantly y-o-y. The materials rate remained in the range of c.6% throughout the year. Strong business performance translated into improved full year gross margins.

Operating expenses *excluding IFRS 16, Clinics*

Our focus on efficiency resulted in strong y-o-y positive operating leverage of 16.0 ppts in 2019. The business managed to control its operating salary base, the expense of which favourably lagged respective revenue growth. The increase in General and administrative expenses (excluding the IFRS 16 impact), relates mainly to staff training in managerial positions after the healthcare service business split at the beginning of the year, explained in more details on page 63.

EBITDA *excluding IFRS 16, Clinics*

Increased revenue and the well-controlled cost base translated into strong EBITDA growth for 2019. The Clinics business continues to significantly improve its EBITDA margin, reaching 19.9%, driven by EBITDA margin improvement in polyclinics as a number of them make progress towards their run rate potential and the base of registered patients continues to increase. The polyclinics' EBITDA margin rose to 18.8% in 2019 (15.7% in 2018).

Profit *excluding IFRS 16, Clinics*

Depreciation and amortisation expense increased only modestly (3.9% y-o-y) and reflects mainly investments in medical services. Trends in net interest expense and foreign currency gain or loss are similar to those in the hospitals and overall business (for details, see page 62).

The main priority of the Clinics business remains to further increase the base of registered customers, as our polyclinics represent a first point of customer interaction for our overall business. Combined with the newly launched dental offices, we believe that the polyclinics will become largest source of the business' future growth, while we expect only moderate growth from the community clinics.

Discussion of Pharmacy and Distribution business results

Income statement, *Pharmacy and Distribution business*

GEL thousands, unless otherwise noted	2019	2018	Change, Y-o-Y
Pharmacy and Distribution revenue	**614,675**	518,578	18.5%
Costs of Pharmacy and Distribution	**(457,820)**	(386,372)	18.5%
Gross profit	**156,855**	132,206	18.6%
Salaries and other employee benefits	**(51,162)**	(45,925)	11.4%
General and administrative expenses *excluding IFRS 16*	**(42,224)**	(35,169)	20.1%
Impairment of receivables	**(470)**	–	NMF
Other operating income	**2,304**	1,103	108.9%
EBITDA *excluding IFRS 16*	**65,303**	52,215	25.1%
EBITDA margin *excluding IFRS 16*	**10.6%**	10.1%	
IFRS 16 impact on EBITDA[1]	**18,937**	–	NMF
Depreciation and amortisation *excluding IFRS 16*	**(3,074)**	(2,352)	30.7%
Depreciation and amortisation	**(18,962)**	(2,352)	NMF
Net interest income (expense) *excluding IFRS 16*	**(11,802)**	(11,924)	-1.0%
Net interest income (expense)	**(16,753)**	(11,924)	40.5%
Net gains/(losses) from foreign currencies *excluding IFRS 16*	**(2,976)**	(2,923)	1.8%
Net gains/(losses) from foreign currencies	**(6,293)**	(2,923)	NMF
Net non-recurring income/(expense)	**(131)**	(859)	-84.7%
Profit before income tax expense	**42,101**	34,157	23.3%
Income tax benefit/(expense)	**(730)**	–	NMF
Profit for the period *excluding IFRS 16*	**46,590**	34,157	36.4%
Profit for the period	**41,371**	34,157	21.1%

1 Represents IFRS 16 impact on General and administrative expenses.

Revenue, *Pharmacy and Distribution*

The business has delivered another outstanding year, posting strong double-digit revenue growth in our retail and distribution businesses, as shown in the table below. Excluding sales from "ELG", our centralised medicine procurement entity that was transferred to the GHG pharmacy and distribution business wholesale segment in 2019, the business posted headline growth of 14.0% in 2019.

Revenue by types, *Pharmacy and Distribution*

(GEL thousands, unless otherwise noted)	2019	2018	Change, Y-o-Y
Pharmacy and Distribution revenue	**614,675**	518,578	18.5%
Revenue from Retail	**437,812**	384,109	14.0%
Revenue from Distribution	**176,863**	134,469	31.5%
Gross profit Margin	**25.5%**	25.5%	0.0 ppts

The increase in y-o-y revenues from retail is attributable to expansion and organic sales growth in the business. This year, we have added 26 new pharmacies to our chain, expanding from 270 to 296 stores.

The same-store growth rate was 9.0% in 2019, and is attributable to growth in both bills issued and average bill size. The number of bills issued was up 6.4% in 2019, with average customer interactions up to about 2.4 million per month (from 2.3 million in the prior year). The average bill size was up 6.4% in 2019 and reached GEL 14.3.

As mentioned above, part of the distribution revenue growth relates to the contribution of ELG to the business in 2019. This resulted in increased intercompany sales with GHG Hospitals and Clinics businesses. Excluding the ELG sales, the distribution revenue also grew strongly, by 14.0%, as we expand the business by signing new corporate accounts.

Gross profit, *Pharmacy and Distribution*

The Pharmacy and Distribution business gross profit margin were well-managed throughout the year, with slight fluctuations between quarters due to the business seasonality and FX movements.

There are three main drivers of the healthy margins of the business. First is the scale of the business in comparison with our competitors. As the largest purchaser of pharmaceuticals in the country, we believe we have a cost advantage.

Second, our margins also benefit from strong sales in non-medication categories (personal care, beauty and other para-pharmacy products), total sales of which was GEL 143.6 million in 2019 (up 22.4% y-o-y), with 31.3% gross profit margin. Our para-pharmacy sales have the strongest margins and the share of para-pharmacy sales in retail revenue reached 31.0% in 2019, up 140 bps y-o-y.

Third, margins on sales of both medicines and non-medication products benefit from the increasing share of private label products in our mix. Currently, 37 private label medicines are presented in our pharmacies, with an annualised revenue contribution of c.GEL 4 million. In May 2019, private label personal care products were also introduced in our pharmacies under the brand name "Attirance", posting around GEL 1 million in sales for the year.

Operating expenses *excluding IFRS 16, Pharmacy and Distribution*

The business posted y-o-y positive operating leverage of 4.1 ppts in 2019. Salaries and other employee benefits, despite the pension reform, favourably lagged behind the same period revenue growth. Apart from business expansion, the y-o-y increase in general and administrative expenses (excluding IFRS 16 impact) is attributable to the marketing activities and promotions to support retail sales growth and increased rent expense of pharmacies by around GEL 1.2 million due to the GEL devaluation in 2019 (about 85% of rental contracts are denominated in US dollars).

Increased other operating income in 2019 reflects the gain on the sale of unused land and building in the second quarter.

EBITDA *excluding IFRS 16, Pharmacy and Distribution*

As a result, the business full year margin of 10.6% substantially exceeded our updated target of 9% (previously 8%+).

Profit *excluding IFRS 16, Pharmacy and Distribution*

The increase in depreciation and amortisation expense reflects investments in different projects such as The Body Shop and software development. Due to the refinancing rate increase, explained in more details on page 62, by the year end the Pharmacy and Distribution business started to repay loans and overall reduced its borrowings by 15.6% y-o-y, translating into 1.0% reduction in respective interest expense.

Full year foreign currency loss reflects the increase in the GEL value of US dollar denominated payables to suppliers due to the devaluation of GEL in 2019, also explained in more details on page 62, the effect of which is partially mitigated by solid gross margin of the retail business.

Business development and operational highlights:

- 296 pharmacies as of December 2019 (270 as of December 2018).
- Average retail customer interactions per month was c.2.4 million in 2019 (c.2.3 million in 2018).
- Average bill size was GEL 14.3 in 2019 (GEL 13.4 in 2018).
- C.0.8 million loyalty card members as at 31 December 2019.

Financial Overview continued

Discussion of Medical Insurance business results

Income statement, *Medical Insurance business*

GEL thousands, unless otherwise noted	2019	2018	Change, Y-o-Y
Net insurance premiums earned	**75,358**	55,112	36.7%
Cost of insurance services	**(64,110)**	(45,427)	41.1%
Gross profit	**11,248**	9,685	16.1%
Salaries and other employee benefits	**(5,076)**	(4,434)	14.5%
General and administrative expenses *excluding IFRS 16*	**(1,856)**	(1,459)	27.2%
Impairment of receivables	**(481)**	(362)	32.9%
Other operating income	**1,377**	621	121.7%
EBITDA *excluding IFRS 16*	**5,212**	4,051	28.7%
EBITDA margin *excluding IFRS 16*	**6.9%**	7.4%	
IFRS 16 impact on EBITDA[1]	**393**	–	NMF
Depreciation and amortisation *excluding IFRS 16*	**(755)**	(759)	-0.5%
Depreciation and amortisation	**(1,106)**	(759)	45.7%
Net interest income/ (expense) *excluding IFRS 16*	**790**	21	NMF
Net interest income/ (expense)	**737**	21	NMF
Net gains/(losses) from foreign currencies *excluding IFRS 16*	**80**	215	-62.8%
Net gains/(losses) from foreign currencies	**23**	215	-89.3%
Net non-recurring income/(expense)	**–**	–	–
Profit before income tax expense	**5,259**	3,528	49.1%
Income tax benefit/(expense)	**(856)**	(579)	NMF
Profit/(Loss) for the period *excluding IFRS 16*	**4,471**	2,949	NMF
Profit/(Loss) for the period	**4,403**	2,949	NMF
Loss ratio (%)	**81.4%**	77.3%	+4.1 ppts
Expense ratio *without IFRS 16* (%)	**12.7%**	16.8%	-4.1 ppts
Combined ratio *without IFRS 16* (%)	**94.1%**	94.0%	+0.1 ppts

Revenue, *Medical Insurance*
Our Medical Insurance business posted y-o-y double-digit revenue growth, driven by the increased number of new clients in our corporate segment. The business started to benefit from the Group's scale, which gives us the ability to offer more competitive prices on the market. Apart from business growth, the increased number of insured clients further increases our medical insurance claims retention rate within the Group – which, apart from expansion, is the business' main priority.

Starting from February 2020, we will no longer be insuring the Ministry of Defence ("MOD"). This will reduce the Medical Insurance business revenue but will have immaterial impact on its earnings, as the client loss ratio was far above the business' average. We had acquired the MOD in February 2019, through a tender process.

Gross profit, *Medical Insurance*
Medical insurance claims expenses account for almost all of the cost of insurance services. In 2019, our medical insurance claims expense was GEL 61.3 million, of which GEL 25.0 million (40.7% of the total) was inpatient, GEL 25.6 million (41.8% of total) was outpatient and GEL 10.7 million (17.5% of total) was accounted for by drugs.

In 2019, loss ratio was up y-o-y due to the addition of large clients, such as MOD, which have a higher loss ratio compared with small corporate clients.

Claims retention rates
Various incentives such as direct settlement of claims with the provider mean that, on top of its own positive contribution to our profitability, our insurance business plays a feeder role in originating and directing patients to our healthcare facilities, mainly to polyclinics and to pharmacies. As our business has expanded, we have significantly improved the claims retention rates within the Group (i.e. reimbursements of our customers' healthcare costs that are paid to other Group entities).

	2019	2018	Change, Y-o-Y
Total claims retained within the Group	**42.5%**	39.4%	+3.1 ppts
Total claims retained in outpatient	**40.2%**	38.7%	+1.5 ppts

Operating expenses *excluding IFRS 16, Medical Insurance*
The increases in salaries and general and administrative expenses were well-controlled and lagged behind respective revenue growth.

Last year, our Medical Insurance business began participating in the Compulsory Motor Third Party Liability Insurance Programme, effective in the country from 1 March 2018. The profit from this is shown in other operating income. Starting from 2019, the business renegotiated and increased the fee from this service, which resulted in y-o-y increase in other operating income.

As a result, the business improved its expense ratio (excluding IFRS 16 impact), which was down 4.1 ppts y-o-y at 12.7% in 2019. Consequently, the 2019 combined ratio remained almost flat, at 94.1%.

Operational highlights:
- Our insurance renewal rate was 77.5% in 2019 (69.7% in 2018).

1 Represents IFRS 16 impact on General and administrative expenses.

Discussion of Diagnostics business results

Overview, *Diagnostics*

Mega Lab is an important, separately reported, business line for the Group, the results of which are shown below in detail.

Before opening Mega Lab, most of the Group's healthcare facilities had their own laboratory units and the Group owned one smaller scale lab facility (Patgeo, acquired in 2016). The results below for 2018 show the numbers for Patgeo and the small lab units, which after opening Mega Lab, were fully consolidated into the Diagnostics business 2019 results.

Income statement, Diagnostics

GEL thousands, unless otherwise noted	2019	2018	Change, Y-o-Y
Diagnostics revenue	**5,071**	2,926	73.3%
Costs of Diagnostics	**(3,818)**	(2,391)	59.7%
Gross profit	**1,253**	535	134.2%
Salaries and other employee benefits	**(957)**	(233)	NMF
General and administrative expenses excluding IFRS 16	**(319)**	(313)	1.9%
Impairment of receivables	**15**	(44)	NMF
Other operating income	**170**	188	-9.6%
EBITDA *excluding IFRS 16*	**162**	133	21.8%
EBITDA margin *excluding IFRS 16*	**3.2%**	4.5%	
IFRS 16 impact on EBITDA[1]	**14**	–	NMF
Depreciation and amortisation *excluding IFRS 16*	**(194)**	(183)	6.0%
Depreciation and amortisation	**(207)**	(183)	13.1%
Net interest income/ (expense) *excluding IFRS 16*	**(199)**	(71)	180.3%
Net interest income (expense)	**(200)**	(71)	181.7%
Net gains/(losses) from foreign currencies *excluding IFRS 16*	**(29)**	(1)	NMF
Net gains/(losses) from foreign currencies	**(29)**	(1)	NMF
Net non-recurring income/(expense)	**(5)**	(20)	-75.0%
Profit before income tax expense	**(265)**	(142)	86.6%
Income tax benefit/(expense)	**–**	–	–
Profit for the period *excluding IFRS 16*	**(265)**	(142)	86.6%
Profit for the period	**(265)**	(142)	86.6%

Revenue by types, Diagnostics

(GEL thousands, unless otherwise noted)	2019	2018	Change, Y-o-Y
Diagnostics revenue	**5,071**	2,926	73.3%
Contracts	**4,813**	2,926	64.5%
Walk-in	**258**	–	NMF

95% of our Diagnostics business revenue came from contracts, mainly from the Group's hospitals and clinics, by consolidating the demand for planned laboratory tests in Mega Lab. The remaining 5% of revenue from walk-in patients represents retail revenue, which we plan to increase as the business continues to develop retail blood collection points.

The cost base for lab tests are the same as it was for our previously operated separate lab units in our healthcare facilities, enabling the newly added Diagnostics business already to post a positive margin due to the reduced cost of tests as a result of consolidation. The business achieved break-even in 2019, a significant achievement for a newly launched segment.

Operational highlights:	2019
Number of patients served *(in thousands)*	**277**
Number of tests performed *(in thousands)*	**670**
Average number of tests per patient	**2.4**

1 Represents IFRS 16 impact on General and administrative expenses.

Directors' Governance Statement

Chair's introduction

Fellow Shareholders,

Our collective understanding across the corporate world of good practice in corporate governance has continued to evolve over the course of 2019. Changes in investor expectations, in the focus that Boards are giving not just to long-term shareholder value but also wider stakeholder needs, and in the regulatory environment are all crystallising.

Our focus this year as a Board, and in each of the Board Committees, has been on adding value. We continue to be struck by the entrepreneurial spirit shown by our management team and the breadth and depth of business ideas being developed – these are all vital to the long-term success of our Company. I see our role as a Board to share our experiences and to help to cultivate those ideas; to challenge management and to encourage management to think about some of the challenges and opportunities that we see in the region and in the healthcare sector.

Our Board has also paid additional attention in 2019 to the pipeline of future senior management talent being developed across the Group. This will also be a key long-term differentiator for us as a Group. The initiatives underway to identify and develop talent, including those initiatives which we as a Board have been involved with over the course of the year, are bearing fruit. We detail elsewhere in this Annual Report the strong progress we are making on gender diversity at senior and middle management levels, and diversity as measured by a range of characteristics will continue to be an important area of discussion for us moving into 2020.

Underpinning both of these concepts is the importance of our purpose, mission and values, and ensuring that all of these areas are aligned to our internal expertise and competencies, and that they are responsive to the way in which the Georgian and regional markets, and the healthcare sector more broadly, are evolving. The Board is pleased with the work that is underway in articulating our culture at both Group and individual business level; a strong and clearly defined corporate culture is vital in delivering upon our mission statement and in attracting and retaining our talent.

We reflect in this Statement on some of our key corporate governance actions over the course of 2019, including the steps we have taken as a Board to apply the main provisions and principles of the 2018 UK Corporate Governance Code.

As detailed elsewhere, the Board has been briefed on recent developments in corporate governance, including on current diversity reviews. All Directors are fully aware of their duties and responsibilities under the Code, the Listing Rules, and the Disclosure Guidance and Transparency Rules.

We remain committed to working with our management to assure that our high standards extend beyond the boardroom and are continually implemented in the successful delivery of the Group's strategic priorities.

Bill Huyett
Chair of the Board
7 April 2020

Compliance statement with UK Governance Code

We have prepared this Annual Report with reference to the UK Corporate Governance Code (the "2018 Code" or the "Code") published by the Financial Reporting Council (FRC) in July 2018.

As a Board, we have considered the principles and provisions of the most recent iteration of the Code, and the added emphasis in the 2018 Code around purpose and culture, stakeholder engagement, succession planning and diversity. These are all areas that we as a Board see as critical to the health of our Company. We have taken several important steps over 2019 to comply with both the letter and the spirit of the Code, and we describe in this report how the Board ensures compliance with the provisions and principles of the Code.

Statement of compliance with the 2018 Code

Throughout the year ended 31 December 2019, and to the date of this report, we have applied the main principles and complied with the provisions of the 2018 UK Corporate Governance Code.

Set out on our website at: http://ghg.com.ge/compliance-with-the-main-principles-of-the-corporate-governance-code is the Board's assessment of its application of the Main Principles of the Code, as required by LR 9.8.6.

We recognise that good practice continues to evolve, and in 2020 the Board will continue to examine in 2020 what more we can do to promote the Code in the work of the Board and across the Group.

Steps the Board has taken to implement the 2018 Code

- Received a briefing from the UK General Counsel and Company Secretary on the provisions of the 2018 Code and an analysis of any gaps in the Company's application of the provisions and principles.
- Reviewed the matters reserved for the Board and the terms of reference of each Board Committee to align with provisions in the Code.
- Spent more time in 2019 at the Nomination Committee level on succession planning and diversity at senior and middle management. For further information on this, please see our Nomination Committee Report on pages 96 to 99.
- Dedicated further time in 2019 at Board level to the development of our human capital strategy and culture at the Group and its individual businesses.
- Appointed Dr Mike Anderson as the designated Non-Executive Director for workforce engagement – see more on his work and on workforce engagement with the Board below.

Board priorities and progress

Roles of the Board

Our Board has five principal roles:

Purpose, values and culture	We help management shape the core values and culture that will best enable us to 1. deliver against the mission of the Group to improve the health of Georgians and 2. adhere to the highest standard of ethical, transparent conduct in our dealings with patients/customers, regulators, suppliers and investors.
Corporate strategy for long-term value creation and growth	We oversee the evolution of the Group's portfolio of businesses through organic development and Merger & Acquisitions (M&A). We work with management to: • Build digital capabilities that enable quality, productivity and growth. • Identify opportunities to continuously upgrade our network of physical assets. • Pressure test the allocation of capital across the Company and appropriate return of capital to investors. • Develop a robust pipeline of new business growth initiatives.
Organisation and leadership effectiveness	We ensure that the organisation's leadership, design, capabilities and supporting systems match the requirements of the corporate and the diverse strategies of our current and future businesses and of the corporate centre. We establish targets and evaluate the performance of the CEO. We oversee the design of top management evaluation and compensation practices.
Operational and financial performance	We oversee management's delivery against operating, quality and financial performance expectations for growth and return on capital. We help the CEO and CFO build management systems that keep pace with the growth and scope of the Group's activities, incorporating global best practices. We oversee risk management and internal controls for quality, operations and financial performance. Finally, we work with management to make the appropriate trade-offs that balance our short-term and long-term obligations to all constituencies.
Shareholder and stakeholder engagements	We regularly engage with shareholders to ensure that the Board understands their views and incorporates them into its decision-making. We engage with the regulatory and legislative arms of the Georgian Government, both to ensure our compliance and our collaboration in building the best possible healthcare system for the citizens of Georgia. In an organisation where success depends heavily on front-line performance, sometimes in urgent and stressful settings, we work to understand the opportunities to better develop and support our people. Finally, we have innovative approaches to listening to our patients and customers, allowing us to better deliver our services and products.

Directors' Governance Statement continued

"We have made important progress in 2019 against all five of those responsibilities."

Bill Huyett, Chair of the Board

Purpose, values and culture

Purpose and values

Our purpose and values remain unchanged: to be a driving force for improved healthcare, to create value for our shareholders and employees, and do so with the highest ethical standards. Our geographic focus remains on Georgia, but 2019 saw greater attention to opportunities in the greater Caucusus, such as our Mega Lab and our retail businesses.

Developing our culture

In 2019, the Board gave additional attention to fostering a culture that is a long-term differentiator, in terms of operating performance, strategic effectiveness and attractiveness to the best people and suppliers.

We are a large group, with a diverse set of healthcare businesses and a corporate centre that must add value to those businesses. With this in mind, the Board believes that the: a) corporate centre determines the purpose, values and overall cultural attributes of the company; and b) individual businesses adapt and implement those in a way that best fits their size, maturity and operating characteristics. Top management and the Board encourage all employees to participate in the development of culture in each business.

The Board received updates throughout 2019 on the culture-shaping work, including reports from the Chief Operating Officers in each of the Group's businesses. We have also taken time this year to ensure that senior management promote the Group's culture and values, that the training and development initiatives across the Group to promote culture, and that culture is embedded in our recruitment practices.

Finally, the Board works with top management to ensure that the core management processes, such as performance evaluation, fully support our culture aspirations.

Corporate strategy for long-term value creation and growth

Long-term value creation in our Company depends on balanced attention to increasing our returns to capital deployed and to growth. We made progress on both during 2019.

With respect to growth, the Board formalised with management the Company's approach to building a pipeline of new businesses. Our pipeline is promising, well-funded, and the performance metrics are tailored to early stage growth businesses. In our existing businesses, growth in high-return product/market segments is an important KPI for our operating executives.

Capital allocation and capital efficiency is the major strategic tool the Board uses for improving capital returns. We improved our approach to optimising the operating assets of the company and to identifying and disposing of surplus assets.

Building our digital capabilities – our "digital first" mindset – is as important to our long -term value creation as is our physical assets. The Board supported the management team in the exceptionally effective development and roll-out of two core platforms; our electronic medical records and EKIMO, the nationwide customer platform.

Organisation and leadership effectiveness

2019 saw the adoption of a business unit top management structure intended to simplify performance accountability and promote rapid response to strategic opportunities. During 2019, the Board supported the CEO's design and implementation work for the business units and the corporate centre.

Our rapid growth and demanding performance expectations demands a deep leadership group at all levels. The Board reviewed during 2019 the Company's new comprehensive succession and development plan for the top team.

Workforce engagement

Our mission demands high-performance service, to patients and customers. A large proportion of our 16,000 employees meet patients and customers on a daily basis, and are pivotal to successful treatment, service delivery and customer satisfaction.

In line with the recommendations of the UK Corporate Governance Code, Dr Anderson has been appointed as the designated Non-Executive Director for engagement with the workforce, and has supported a calendar of activities starting from 2019. Dr Anderson is responsible for ensuring that the views of the workforce across the Group are reflected in the Board discussions where appropriate. A total of six Independent Directors have been appointed as employee engagement leads for the Group's constituent businesses. Each of these Directors has regular discussions with senior managers in these functions, and such discussions are reflected as appropriate at the Board.

Those members are:

- Pharma: Jacques Richier;
- Polyclinics: Fabian Blank;
- Evex: Mike Anderson and Tim Elsigood;
- Diagnostics: Mike Anderson; and
- Insurance: Ingeborg Oie.

The Board's engagement activities during 2019 included:

- Site visits to our hospitals, polyclinics and pharmacies, meeting with managers and employees;
- Hosting talent breakfasts;
- Engaging Board members in leadership talks;
- Mentoring and coaching our C-level executives, reinforcing a culture where a manager is also a coach;
- Inviting middle managers to the Board meetings; and
- Organising "Meet the Board" events for employees.

These engagements give the Directors insights into business culture and employee issues, and give our middle and senior managers opportunities to interact with the Board.

Remuneration

The compensation of employees in the Group, other than the Executive Director's, is benchmarked against the Georgian labour market as this is the most relevant comparator. Our employees are offered competitive remuneration packages, which include benefits and the opportunity to participate in the pension scheme on the same terms as applicable to Mr Gamkrelidze and executive management. We continue to consider our approach to be in line with local market practice, but we will, through the Remuneration Committee and at Board level, continue to regularly monitor both staff satisfaction and changes in market practice in this area.

Our approach toward remuneration is set out in further detail in the Remuneration Committee report. We further set out in our Resources and Responsibilities section some of the initiatives underway in terms of supporting, investing in and developing our workforce.

Operational and financial performance

The diversity of our healthcare businesses demands highly tailored operating and financial performance management. During 2019, we made important progress on clinical quality in our Hospitals and Clinics businesses.

Clinical quality is central to our mission, and to the long-term performance of the company. We also improved the structure of our KPIs and their links to performance evaluation and compensation.

Shareholder and stakeholder engagement

As a major healthcare provider in Georgia and in the Caucasus region that is also a publicly listed company, stakeholder and shareholder engagement effectiveness is central to our long term success

Shareholders

The Board's duty to the owners of our Company is one we take seriously.

The Company has a comprehensive approach to listening to our current and potential new shareholders The Board's primary contact with institutional shareholders is through the Chair, the Senior Independent Non-Executive Director, the CEO, the Advisor to the CEO, and the Head of Investor Relations, each of whom provides a standing invitation to shareholders to meet and discuss any matters they wish to raise. Our Committees' Chairs also make themselves available to answer questions from investors.

We formally communicate with our shareholders through our AGM, Annual Report and Accounts, Half-Year Report and Interim Management Statements. These are supported by presentations and telephone briefings. Over the course of 2019, we met with over 200 institutional investors, and participated in more than ten investor conferences. Throughout the year, our Directors and management met with shareholders in Georgia, the United Kingdom, Europe, the United States and South Africa. In addition to our shareholders, we meet and present to analysts throughout the year. Our Group Company Secretary and UK General Counsel also has ongoing communication with the shareholders' advisory groups.

In June 2019, GHG hosted an investor day in Tbilisi, which was open to all investors and analysts. We were delighted to host approximately 70 investors and analysts for an update from the Board and Executive Management on strategy and performance. The event also provided an opportunity for investors to meet informally with the Board members and raise matters of interest. The discussion helped the Company's management and the Board as we shaped the Company's direction.

On one important matter, namely finalising our new Remuneration Policy, we sent letters to top shareholders outlining the policy, and met face-to-face with shareholders, in several different countries, to answer questions and hear feedback.

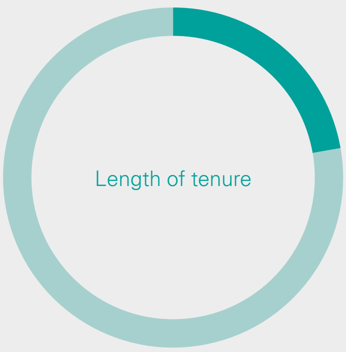
The Chair has overall responsibility for ensuring that the Board understands the views of shareholders. The full Board is regularly informed of these views by the Chair and executive management, and the Investor Relations team. Perspectives from analysts and the Group's corporate advisers are also shared with the Board.

In November 2019, the Board also considered the Exchange Facility offered to our shareholders by our controlling shareholder, Georgia Capital. The Board welcomed Georgia Capital's continued confidence in our management and strategy and support for GHG as an independent, listed company and, in particular, that Georgia Capital recognised the significant progress we have made over the last few years. The Exchange Facility provided a liquidity event for shareholders and an opportunity to exchange their investment for one in the more liquid Georgia Capital, whilst maintaining exposure to the growing and profitable Georgian Healthcare market. As a result of the Exchange Facility, Georgia Capital increased its stake from 57% to 70.6%.

Nationality of Board of Directors

Nationality	Number of Directors
Georgia	2
US	2
Germany	1
France	1
Norway	1
UK	2

Board membership and demographics



0 – 3 years	2
4 – 6 years	7

Healthcare professional:	1
Healthcare management and finance:	3
Insurance:	1
Investment banking:	1
Management consultancy:	3
Legal:	1

Stakeholder Engagement

Our other key stakeholders

The Board strives to understand the expectations, needs, concerns and ideas of our stakeholders, be they patients, healthcare professionals, the workforce, government, local communities or third-party suppliers. By incorporating their feedback into our strategy and our daily business, we are able to address the common issues and develop solutions. We detail below whom we consider to be our major stakeholders, and how we listen and respond to them.

Stakeholders	Why important?	How we engage?
Our patients	**Patients play a key role in providing guidance for developing new services and provide insights into the existing services offered in our facilities.**	In 2018, a number of Non-Executive Directors visited polyclinics and hospitals, including visiting Caucasus Medical Centre prior to the formal opening, and meeting with patients in Caucasus Medical Centre to gain further insight into the range of services offered and understand the patient experience. The Non-Executive Directors also visited pharmacies and the Laparoscopy Surgery Centre. In 2019, the Group's Service Quality department conducted a brand loyalty and customer satisfaction survey across the Group. Furthermore, during the year, our call centre conducted an NPS (Net Promoter Score) survey across a number of our hospitals and clinics. In future years, we plan to roll this out across the entirety of our network. Our Quality department also conducted an analysis of customer feedback, gathered from various communication channels, in order to identify customer needs and demands. Further details on **patient engagement** can be found in our **Resources and Responsibilities** section.
Healthcare professionals	**Healthcare professionals play a key role in ensuring that the patients receive quality healthcare.**	First-class leaders of our medical team are driving the improvement of service quality, sharing specialist knowledge with the wider Group and access of patients to healthcare. To ensure that all clinical and ethical standards are in place, we are now engaging with senior clinicians across the Group through our dedicated Medical Boards throughout our network of hospitals. To contribute to the improvement of understanding new, emerging clinical data, and advances in treatment and diagnosis, with more than 100 principal and sub investigators in the chain, our Hospitals and Clinics businesses have taken part in 60 clinical trials across several therapeutic areas with collaboration of more than 40 sponsors and Contract Research Organisations (CRO). We detail our engagement with clinicians further in our **Clinical Quality and Safety Committee Report** and **Resources and Responsibilities** section.
Workforce	**Our workforce plays a crucial role in the delivery of quality services and is an integral part of the Group's success.**	We define our workforce as those that are directly employed by the Group. We use a range of mechanisms to ensure the views of our workforce are heard and understood, including regular employee engagement and employee satisfaction surveys, Town Hall sessions with senior management, and leadership talks undertaken by both senior managers and members of the Board. We detail our engagement with the workforce further in our **Resources and Responsibilities** section.
Government and regulators	**The Government subsidises healthcare for the Georgian citizens. Successful relationships with the Government are key to our long-term success.**	We continue to engage regularly with Government departments, including at ministerial level, through a regular schedule of engagement and through attendance at round table and other policy-setting events.
Society	**We have an important role to play as a large employer in supporting and developing Georgian society more widely.**	We spend significant time engaging with local communities through volunteering and outreach programmes. We also continue to support patients in more remote communities through our subsidised healthcare programme. We take our environmental responsibilities seriously. We appreciate that societal expectations on corporates to tackle climate change continue to change, and we will continue to look at new and innovative ways of reducing our carbon footprint. We are proud of the work that we do in engaging with higher education institutions and supporting the development of the next generation of healthcare students.

Our website, http://ghg.com.ge, provides our stakeholders with access to the Group's results, press releases, investor presentations, analyst reports, details on our corporate governance and corporate and social responsibility framework and our leadership, as well as other information relevant to our stakeholders. We also ensure that shareholders can access details of the Group's results and other news releases through the London Stock Exchange's Regulatory News Service.

What have they told us?	How have the Board acted on this?
Patient feedback has been instrumental in our development of new services and of educational and training materials, including options for digital delivery of services where appropriate. This feedback also provides real insight into how we can assist healthcare professionals to support patients. We have also taken time to understand some of the unique challenges that those patients living in more geographically remote regions face in accessing high-quality healthcare, and what more we can to support our patients that have chronic conditions.	One of the key challenges for the Group is ensuring that we can provide access to high-quality medical services to all patients, including those living in remote mountain regions and those patients with chronic diseases. The feedback we have received has been useful in developing our offer across all different patient categories. Improving clinical quality standards remains a focal area for the Group, and patient feedback will continue to be an important mechanism for measuring such improvement.
A real focal area for professionals continues to be on securing high-quality clinical data, which in will allow for further advances in treatment and diagnosis. Our professionals are also providing significant input into the production of education materials on diseases, and the ways in which we communicate treatment options with patients.	Informed in part by our continued engagement with healthcare professionals, our digital patient platform EKIMO has been developed and is being rolled out throughout 2020. Our Good Clinical Practice certification programme has been accredited and approved by the Ministry of Health and Social Affairs of Georgia,and makes us the preferred clinical trial site supplier. Further details of the EKIMO platform are set out elsewhere in the **Strategic Report**.
One key theme from our workforce is the desire at all levels to be aware of, and engaged with, the Group's strategy. Communication and ensuring that all employees are aware of, and engaged with, the Group's strategy and the way in which each employee can contribute to the delivery of Group's success.	As set out in our **Resources and Responsibilities** section, we have introduced a number of innovative initiatives to improve middle and senior management level engagement with the Board, which represents an important development opportunity for those employees. We have also made changes to the way in which we communicate strategic priorities and initiatives internally, both through the intranet and in face-to-face meetings, following workforce feedback.
Discussions with Government continue to focus on commercial arrangements between the Group and the Government, and facilitating improved access to our products and services.	Our engagement with the Government has allowed for further cross-party development of flexible pricing models to address affordability across the different regions. We have also worked closely with the Government in the joint development of tailored programme with governments to strengthen the healthcare infrastructure in Georgia.
One key theme emerging is on the need to actively engage with the corporate social responsibility agenda and to act as a leading corporate citizen. This is particularly important given the size and scale of our business; we have an opportunity to play a leading role at a national level as a conscientious and socially responsible business.	We continue to look at ways of making the Group's operations more environmentally sustainable. We know how important this is to a range of stakeholders, and we set out in our **Resources and Responsibilities** section some highlights in this area in 2019. Our community engagement programmes are well received. Our work in promoting healthy lifestyles is important in driving continued improvements in the standards of health and wellbeing across the country.

Stakeholder Engagement continued

Board session agenda topics for 2019

The Board meets quarterly in Georgia and holds a number of additional conference call meetings, largely in order to deal with transactional business. The meetings in Georgia allow Directors to meet with a range of stakeholders, including patients and customers, employees at different levels of the Group, and representatives from Government and regulatory agencies.

	Feb*	Mar	Apr	May	Jun	Aug	Sep	Oct	Nov*	Dec
Operational and financial performance										
Operational performance		✓			✓		✓			✓
Financial performance		✓			✓		✓			✓
Quarterly and half year results	✓			✓		✓			✓	
Capital allocation	✓	✓								
Annual report discussion and updates (from Audit Committee)	✓	✓								
Organisational and leadership effectiveness										
Organisational development		✓								
Human capital strategy					✓					✓
Corporate strategy and purpose, values and culture										
Long-term value creation initiatives		✓			✓		✓			✓
Project updates					✓		✓	✓	✓	
Review of priorities for the year		✓								
Feedback from Committees		✓			✓		✓			✓
Governance										
Policy reviews							✓			✓
Board / Committee effectiveness							✓			
Committee terms of reference review										✓

* Two meetings were held in February and November 2019

Board priorities in 2020

We have set our priorities for 2020 based on the evolution of the markets in which we operate and the opportunities for long-term value creation and contributions to the country of Georgia. They are also informed in part by the findings of recent Board evaluation.

Those priorities are:

Clinical quality

We will continue to build the quality leadership skills at all levels in the Company, and upgrade the tools and systems available to our healthcare providers and managers.

IT platform integration

The Company has been investing in important platforms, including EKIMO for universal online access for our customers and patients, modern ERM for our physicians and nurses. Realising the full impact of these capabilities is the Board's priority.

Core business growth, asset utilisation and fine-tuning of its network

Each of our core businesses has important growth opportunities, and the Board works to ensure they are pursued with enough talent and funding, and with ideas from patients/customers and employees. As our CEO has noted, most of that growth can be accommodated within our existing asset base; the Board will work to improve the utilisation of our modern facilities. Finally, it will ensure our asset network is matched to the supply/demand dynamics in the market.

Scaling of new business growth initiatives

The Board will ensure the health of our pipeline of value creating new business growth initiatives and their decisive implementation.

A focal area in 2020 will continue to be on the Group's human capital strategy and the ways in which this strategy needs to evolve to continue to be in line with our purpose, mission and values. We see there being a number of unifying cultural themes across each business, and a focal area for 2020 will be to consider ways in which we can measure culture for each business.

Evolving our effectiveness with the Georgian Government

Our regulator, an important customer and a leading force in the advancement of public health.

Ensuring full recognition by equity markets of the value and value creation potential of the Group

This includes effective communications with investors across the globe, and delivery on performance commitments.

Our Governance Structure

Structure overview

The Board is led by the Chair, Bill Huyett, with day-to-day management of the Group led by Nikoloz Gamkrelidze, Chief Executive Officer. The Board is ultimately accountable for the long-term success of the Company, and holds a range of responsibilities, including setting of the Group's strategic objectives and monitoring performance against those objectives.

CEO

Responsible for day-to-day management of the Group

Board

Responsible for setting strategic direction and overseeing progress on strategic objectives

Audit Committee
Responsible for reviewing and monitoring the integrity of the Group's financial and reporting processes; and for the governance of both the internal audit function and external auditor

Read more on pages 84 to 90

Clinical Quality and Safety Committee
Responsible for reviewing the clinical quality and safety policies, procedures and processes in place across the Group

Read more on pages 91 to 95

Nomination Committee
Responsible for ensuring that the Board and senior management has the right balance of skills, experience and diversity; and for Director and senior management succession planning

Read more on pages 96 to 99

Remuneration Committee
Responsibility for determining the remuneration awarded to the Chief Executive Officer and senior management; and for reviewing the overall framework for, and approach, to remuneration across the Group

Read more on pages 100 to 113

Board committees

To best carry out its responsibilities, the Board has delegated certain responsibilities to its four Committees: Nomination, Audit, Clinical Quality and Safety and Remuneration. Our committee reports further detail its responsibilities and describe how it has met those responsibilities over the course of 2019.

The Group and its subsidiaries operate within a defined delegated authority framework. This framework helps to ensure that there is an appropriate level of contribution from the Board and from the committees of the Board to the strategic direction of the Group, while providing authority to management to ensure that day-to-day activities are appropriately and effectively managed.

Board membership overview

The Board comprises nine Directors, six of whom are independent Non-Executive Directors. The Chair was deemed to be independent upon appointment. Each of the Chair, CEO and Non-Executive Directors has clearly defined roles within our Board structure. A description of these roles can be found on our website, at http://ghg.com.ge/roles-and-responsibilities.

On behalf of the Board, the Nomination Committee reviews the overall structure, size and composition of the Board, and whether that remains appropriate for the business and the development and support to the delivery of the Group's strategy. Following that review and the advice received from the Nomination Committee this year, the Board continues to regard the structure, size and composition of the Board to be appropriate.

Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to decision-making.

The Board places a high value on diversity of thought and the Board seeks to continue to develop a culture of challenge and openness in its discussions. No individual, or group of individuals, is able to dominate the decision-making process, and no undue reliance is placed on any individual.

The Board assesses the independence of each of the Non-Executive Directors on an annual basis. We consider that, under the Code, all but one of our Non-Executive Directors are independent.

The Board recognises that Mr Morrison is a Director of Georgia Capital PLC, but we are unequivocally of the view that he serves on the Board of Georgia Healthcare Group PLC solely by virtue of the significant and valuable skills and experience that he brings to the Board. As per the above, the Board continues to regularly consider the independence of each of its Non-Executive Directors, and remains of the view that Mr Morrison continues to exercise independent judgement in the full range of his duties for Georgia Healthcare Group PLC. The Board further notes that Mr Gilauri is the nominee Director for Georgia Capital PLC.

In the event that there should be any conflict of interest, in order to ensure that any potential conflict of interest is managed appropriately, both Boards have passed a resolution in December 2018 to ensure that any discussions that Mr Morrison is party to are managed in line with Georgia Healthcare Group PLC's conflicts of interest policy.

The Board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1. Bill Huyett
Independent Non-Executive Chairman

Bill Huyett was appointed as a Non-Executive Director Chair on 20 September 2018, having served as an Independent Non-Executive Director since 18 June 2017 and having been elected by shareholders at the 2018 and 2019 AGMs. He serves as a member of the Clinical Quality and Safety Committee and the Nomination Committee. He is also Chair of the Supervisory Board of JSC Georgia Healthcare Group (JSC GHG).

Skills and Experience: Mr. Huyett is the Chief Financial Officer of Cyclerion Therapeutics, a NASDAQ-listed biopharmaceutical innovator in Cambridge, MA, that was spun out of Ironwood Pharmaceuticals. Prior to that, during a 30-year career at McKinsey and Company in the US and Europe, he served clients in healthcare and other technology-intensive sectors. He advised those clients on value creation strategies and their implications for operational and organisation effectiveness and board governance. His areas of expertise include corporate portfolios, growth, M&A and divestitures. He is the co-author of a text on corporate finance: Value: Four Cornerstones of Value Creation. He currently serves on the boards of several not-for-profit institutions in life sciences, including Rockefeller University in New York and Marine Biological Laboratory in Woods Hole.

Education: Mr Huyett earned a BS in Electrical Engineering and an MBA from the University of Virginia.

2. Nick Gamkrelidze
Chief Executive Officer

Nikoloz Gamkrelidze was appointed as Chief Executive Officer on 28 August 2015 and was elected by shareholders at the 2016 AGM, and re-elected at the 2018 and 2019 AGMs.

He also serves as CEO to JSC GHG, Chair of the Supervisory Board of JSC Evex and Chair of the Supervisory Boards of JSC Imedi L and JSC GEPHA.

Skills and experience: Mr Gamkrelidze was Deputy CEO Finance of BGEO Group PLC from October 2012 to December 2014, and CEO of Insurance Company Aldagi (which included the predecessor companies of GHG Group) from 2007 to 2012. Previously, Mr Gamkrelidze served as CEO of My Family Clinic from October 2005 to October 2007. Mr Gamkrelidze was a consultant at the Primary Healthcare Development Project (a World Bank Project) and worked on the development of pharmaceutical policy and regulation in Georgia. Before joining the Primary Healthcare Development Project, he was the Head of the Personal Risks Insurance Department at BCI Insurance Company from 2002 to 2003. Mr Gamkrelidze started his career at the Georgian State Medical Insurance Company in 1998, where he worked for two years.

Education: Mr Gamkrelidze graduated from the Tbilisi State Medical University with distinctions, and holds an MA in International Healthcare Management from the Imperial College Business School.

3. Irakli Gilauri
Non-Executive Director

Irakli Gilauri joined the Board in September 2015 and was elected as a Non-Executive Director by shareholders at the 2016 AGM and has been re-elected by shareholders each year at all AGMs. Mr Gilauri is also a member of the Supervisory Board of JSC GHG.

Skills and experience: Mr Gilauri was Chief Executive Officer of BGEO Group PLC from 2011 to May 2018, and was Chair of the Bank of Georgia from 2015 to 2018, having previously served as Chief Executive Officer of the Bank since May 2006. Mr Gilauri joined Bank of Georgia as Chief Financial Officer in 2004. Before his employment with Bank of Georgia, Mr Gilauri was a banker at the EBRD's Tbilisi and London offices for five years. He currently serves as CEO and on the Supervisory Board of JSC Georgia Capital Group. Mr Gilauri is also an Executive Director, as CEO and Chairman of Georgia Capital PLC.

Education: Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, London, where he obtained his MSc in Banking and International Finance.

4. David Morrison
Senior Independent Non-Executive Director

David Morrison was appointed as the Senior Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM, and was re-elected by shareholders each year at all AGMs. He also serves as Chair of the Audit Committee and as a member of the Nomination Committee and the Remuneration Committee. Mr Morrison serves as a member of the Supervisory Board of JSC GHG.

Skills and experience: Mr Morrison practised law for 28 years at Sullivan & Cromwell LLP until he withdrew from the firm in 2007 to pursue his other interests. At Sullivan & Cromwell, he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, from capital raisings and IPOs to mergers and acquisitions. Key clients included investment banks and a wide range of commercial and industrial companies. Mr Morrison is the author of several publications on securities law-related topics, and has been recognised as a leading lawyer in Germany and France. In 2008, Mr Morrison turned his attention to financing for nature protection. He became the Founding CEO of the Caucasus Nature Fund ("CNF"), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan. He resigned as CEO in March of 2016 and now serves on its Board of directors as well as on the boards of two new conservation trusts funds he helped to create in 2015 and 2016. In 2019, Mr Morrison was appointed as Environmental Ombudsman of the Republic of Georgia, a function he carries out as an unpaid volunteer. Mr Morrison is a non-executive director of Georgia Capital PLC.

Education: Mr Morrison received his undergraduate degree from Yale College and his law degree from the University of California at Los Angeles. He was also a Fulbright scholar at the University of Frankfurt.

5. Fabian Blank
Independent Non-Executive Director

Fabian Blank was appointed as an Independent Non-Executive Director on 20 September 2018 and re-elected at the 2019 AGM. He has also been appointed as a member of the Clinical Quality and Safety Committee and the Nomination Committee. Mr Blank was also appointed as a member of the Supervisory Board of JSC GHG.

Skills and Experience: Mr. Blank is an independent investor and senior adviser in healthcare. He is an early stage investor and founder in digital health, actively involved in a portfolio of patient-centric start-ups. As an Advisory Board member, he works with a US and an Israeli start-up developing artificial intelligence and software based solutions in the areas of diagnostics and neurological diseases, respectively. As an independent senior management and board-level adviser, he works with healthcare providers and payors, medical technology companies, and private equity firms looking at growth opportunities in healthcare including digital transformation, innovation/disruption, and M&A.

Previously, Mr Blank was co-owner and CEO of a midsized rehab clinic group focused on post-acute treatment in orthopaedics and cardiology. He grew utilisation, revenues and EBITDA in a mature, highly competitive market before exiting the firm to a private equity group. Throughout his 13 years with McKinsey & Company (including at Partner level), he focused on growth topics and consumer-centric functions in mobile telecommunications and healthcare services. He spent the majority of his time in high-growth markets, working in more than 20 countries across Eastern Europe, Sub Saharan Africa, India and South East Asia. Mr. Blank was appointed

in February 2020 as an Independent Director of Enzo Biochem, Inc., a NYSE listed Biotech and Lifesciences company focused on harnessing genetic processes to develop research tools, diagnostics and therapeutics, and provider of reference laboratory services to the medical community.

Education: Mr Blank holds a graduate degree in business management (Diploma Kaufmann) from HHL-Leipzig Graduate School of Management, with semesters at Barcelona's ESADE and Boston University's School of Management. He obtained his intermediate business diploma (Vordiplom) from the University of Trier.

6. Mike Anderson

Independent Non-Executive Director

Mike Anderson was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM, and re-elected each year at all AGMs. He serves as Chair of the Clinical Quality and Safety Committee and as a member of the Nomination Committee. Dr Anderson also serves as a member of the Supervisory Board of JSC GHG, and has recently been appointed by the Board as the designated Non-Executive Director for employee engagement.

Skills and experience: Dr Anderson was initially appointed as a physician at West Middlesex University Hospital in 1990. He subsequently became a medical manager and joined the board of West Middlesex University NHS Trust as Medical Director in 2003. He served as a medical director at Chelsea and Westminster Hospital from 2003 to 2015, as well as continuing in his role as a physician. Dr Anderson was one of the medical directors for the North West London reconfiguration programme (Shaping a Healthier Future) and continues as a physician at Chelsea and Westminster Hospital and in private medical practice. Dr Anderson has also worked as a clinical adviser and has been chairman of hospital inspections for the Care Quality Commission. Dr Anderson is an honorary clinical senior lecturer at Imperial College of Science, Technology and Medicine and a member of the British Society of Gastroenterology and the British Association for the Study of the Liver.

Education: Dr Anderson undertook his undergraduate medical training at St Bartholomew's Hospital in London. After general medical training and completion of his MRCP (Member of the Royal College of Physicians), he trained in gastroenterology and general medicine and completed his MD in aspects of viral hepatitis.

7. Tim Elsigood

Independent Non-Executive Director

Tim Elsigood was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM, and re-elected each year at all AGMs. He serves as Chair of the Remuneration Committee and as a member of the Audit Committee, the Clinical Quality and Safety Committee and the Nomination Committee. Mr Elsigood also serves as a member of the Supervisory Board of JSC GHG.

Skills and experience: Mr Elsigood has over 35 years of international healthcare management experience in over 15 countries across the world. During 2019, he managed a healthcare facility in Abu Dhabi, on behalf of the Avivo Group He was, until January 2019, an Independent Director of Avivo Group, based in Dubai, covering the UAE and Kuwait. The Group has a broad range of healthcare facilities and products. Until 2016, he was a Consultant Advisor to Abraaj in Egypt, Tunisia and Morocco as they expanded their healthcare operations in these countries. Prior to his role in North Africa, Mr Elsigood carried out an extensive review of a major medical diagnostics business in India, evaluating the existing business and advising potential investors on the best path to follow to expand the business and build on the existing portfolio. Before this, he was Vice President for Medsi Group, a private hospital group in Russia. Prior to this, Mr Elsigood worked in Kiev, Ukraine, where he was Chief Executive Officer of Isida Hospital, a specialist maternity and women's hospital with a large IVF centre. He has also carried out executive healthcare roles in Romania and Greece. Initially, Mr Elsigood started his career in the UK National Health Service and after 15 years moved to the private sector in the UK. He then became Senior Vice President of Business Development in Capio AB, based in Sweden. Mr Elsigood has also served as the UK Head of Alliance Medical Ltd, the largest medical imaging company in Europe.

Education: Mr Elsigood holds an MBA with a focus on health policy and strategy.

8. Ingeborg Øie

Independent Non-Executive Director

Ingeborg Øie was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM, and re-elected each year at all AGMs. She serves as Chair of the Nomination Committee and is a member of both the Remuneration Committee and the Audit Committee. Ms Øie is also a member of the Supervisory Board of JSC GHG.

Skills and experience: Ms Øie is Chief Financial Officer of CMR Surgical, the UK headquartered private company behind the next generation surgical robot for minimal access surgery. Her responsibilities also include the People function and government affairs. She joined CMR from Smith & Nephew, the global medical technology company listed on the London Stock Exchange, where she was most recently finance director for Canada and before that held the role of Head of Investor Relations. Prior to joining Smith & Nephew in 2014, she was a research analyst and managing director at Jefferies, the global investment banking firm, covering the Medical Device and Healthcare Services sectors in Europe, the Middle East and Africa. Her focus spanned European and Middle Eastern hospitals as well as the orthopaedics, dialysis, cardiovascular, hearing aids, drug delivery and dental sectors. She commenced her career at Goldman Sachs in London as an analyst in the Global Investment Research division.

Education: Ms Øie graduated with a first class honours degree in Biomedical Engineering from Imperial College London and holds an MSc in Public Health from London School of Hygiene and Tropical Medicine. She is a CFA charter holder and is CIMA exams complete.

9. Jacques Richier

Independent Non-Executive Director

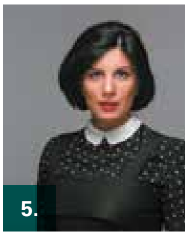
Jacques Richier was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM, and re-elected each year at all AGMs. He serves as a member of both the Audit Committee and the Nomination Committee. Mr Richier also serves as a member of the Supervisory Board of JSC GHG.

Skills and experience: Mr Richier began his career in the oil industry (Coflexip). He then joined the insurance business in 1985, joining AZUR, a mutual insurance company, where he was the IT and organisation manager before being appointed Chairman and Chief Executive Officer in 1998. In 2000, he joined Swiss Life France as Chief Executive Officer, becoming Chairman and Chief Executive Officer in 2003. In 2008, he was offered the position of Chief Executive Officer of AGF and, in 2010, he became Chairman and Chief Executive Officer of Allianz France. From 2014 until 2016, he also served as Executive Chairman and from 2016 to 2018 as Chairman of the Supervisory Board of Allianz WorldWide Partners.

Education: Mr Richier holds a postgraduate degree in Physics from INSA (French National Institute of Applied Science). After being offered a visiting scholar position by the Lawrence Berkeley National Laboratory in Biophysics, California (United States), he received his MBA from HEC (Paris) in 1984.

Senior Management

Board membership demographics



1. Irakli Gogia
Deputy CEO – Finance and Operations

Irakli Gogia was appointed Chief Financial Officer on 27 March 2017 and continues his role as Chief Operating Officer of the Group since July 2014. Prior to his appointment as CFO, Mr Gogia served as deputy chairman of the supervisory board of EVEX Medical Corporation and Insurance Company Imedi L, positions he held since July 2014. He has ten years of experience in the financial industry. From 2009 to 2014, Mr Gogia was Deputy CEO of Insurance Company Aldagi and was responsible for finance, operations, actuarial activities, underwriting personal insurance, IT and operational risks. Prior to joining Insurance Company Aldagi, Mr Gogia was Chief Financial Officer of Liberty Consumer. Prior to this, he was a senior auditor at Ernst & Young and Deloitte. Mr Gogia holds a Bachelor of Business Administration degree from the European School of Management in Tbilisi. He was awarded the Order of Honour by the President of Georgia and received an award for academic excellence from the Minister for Education of the United Kingdom.

2. David Vakhtangishvili
Deputy CEO – Risks & IT

David Vakhtangishvili was appointed as Deputy CEO, Risks & IT on 27 March 2017. Prior to this, he served as Chief Financial Officer of the Group. Prior to joining the Group, Mr Vakhtangishvili was Chief Financial Officer for Bank of Georgia, a position he held since January 2007. Prior to joining Bank of Georgia, Mr Vakhtangishvili worked in global international audit and advisory firms for nine years, including five years at Andersen and four years at Ernst & Young, being in charge of the country's assurance and advisory services of both firms. Mr Vakhtangishvili has a BBA diploma issued by the Free University Business School.

3. Gregory ("Gia") Khurtsidze
Deputy CEO – Clinical

Gregory Khurtsidze was appointed as Deputy CEO, Clinical in February 2016. He has over 20 years of experience in leading healthcare institutions in the US. He has extensive experience in clinical practice, as well as knowledge and understanding of the Georgian healthcare system. Prior to joining the Group, Dr Khurtsidze worked as director of the National Centre of Internal Medicine at New Hospital in Tbilisi, Georgia. Before returning to Georgia, Dr Khurtsidze worked as a physician and held clinical and administrative roles at various leading healthcare institutions in the US including St. John Hospital, North West Kaiser Permanente Division in Longview, Washington and Huron Hospital, Cleveland, Ohio. Dr Khurtsidze completed his MD in General Medicine in 1995 from Tbilisi State University, and is trained in internal medicine and as a hospitalist. Dr Khurtsidze is also licenced in Washington, Oregon and Kentucky, USA.

4. Enrico Beridze
Head of Business Development and Strategic Marketing

Enrico Beridze has served as Head of Business Development and Strategic Marketing since January 2019. Mr Beridze joined the Group in January 2017 as CEO of Group's Pharmacy and Distribution business. Before joining GHG, Mr Beridze was CEO of ABC Pharmacia for more than 15 years, leading it to become the fourth largest pharmaceutical retailer and wholesaler in Georgia. In 2009, as part of ABC he launched the pharmacy chain under the name of Pharmadepot and grew it to the highly successful brand it has become today. He founded ABC Pharmacia following his career as a representative agent for Bristol-Myers Squibb Company in Georgia and Azerbaijan, primarily focusing on the oncology business. Mr Beridze holds a Bachelor's degree in Biology from Moscow State University.

5. Nino Kortua
Chief Legal Officer

Nino Kortua was appointed Chief Legal Officer on 29 April 2015. From 2007 to 2014, Ms Kortua was head of the legal division of Insurance Company Aldagi with responsibility for general legal compliance, contracts and disputes, and represented the Company in court proceedings. Prior to joining Insurance Company Aldagi, she was head of the legal unit at Insurance Company BCI from December 2005. She started her career in insurance in 2000, with Insurance Company Nabati (which in 2004 was renamed Insurance Company Europace), which was later acquired by Insurance Company BCI. Ms Kortua also practised at the law firm Kordzadze & Svanidze Attorneys. Ms Kortua graduated from the Faculty of Law at Ivane Javakhishvili Tbilisi State University with honours in 2001, she obtained her bar certificate in Georgia in 2006.

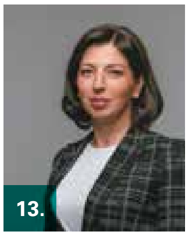
6. Medea Chkhaidze
Chief Human Resource Officer

Medea Chkhaidze was appointed as Chief Human Resource Officer ("CHRO") on 29 April 2015. Prior to this role, Mrs Chkhaidze was Head of HR at Insurance Company Aldagi from 2009 to 2015 and before this, she was an independent HR consultant in the insurance field. From 2007 to 2008, Mrs Chkhaidze worked at Standard Bank as the Head of the Training and Development Unit. Between 2002 and 2007, she worked for the Georgian non-profit organisation, Foundation for the Development of Human Resources, as the leader of various projects and as the executive director of the organisation from 2001 to 2007. Mrs Chkhaidze holds a Master's degree in social psychology and conflict management from Ivane Javakhishvili Tbilisi State University. She is a certified business coach from the Erickson Coaching International.

7. Nino Chichua
Chief Quality Officer

Nino Chichua serves as Chief Quality Officer since April 2019. Prior to this role, Ms Chichua was Chief Marketing and Communications Officer at EVEX Medical Corporation since April 2016 and before that she was Deputy CEO at GHG healthcare services business. Prior to joining GHG, Ms Chichua served as CEO at LEPL Public Service Hall. Prior to her appointment as CEO, she served as head of Marketing Department at the Ministry of Justice of Georgia. Ms Chichua also held various managerial positions at People's Bank, TBC Bank and Insurance Company Aldagi. Nino Chichua is the author of a number of publications. Ms Chichua cooperates with various universities and runs academic activities. She was awarded the Order of Honour by the President of Georgia in 2011.

Ms Chichua graduated from ILIA State University with honours; She holds an MBA degree from Free University (former ESM). In 2013, Ms Chichua was granted a Government Scholarship to study at ESADE Business School and SDA Bocconi School of Management, where she obtained Global Executive Master's degree in Marketing & Sales. Nino Chichua did an executive program in Leadership, Democracy and Development at Stanford University in 2019.



8. Giorgi Mindiashvili
Chief Operating Officer, Hospitals

Giorgi Mindiashvili, has beeb in charge of the Hospitals business since January 2019. Prior to this role, since 29 March 2015, he served as Deputy CEO, Head of Commercial of the Group's Hospitals' business. Before that, Mr Mindiashvili was CEO of EVEX Medical Corporation (GHG's healthcare services business) from April 2013 and a member of the supervisory board of EVEX Medical Corporation from 2010. In 2012, he also served as executive director of Imedi L. Prior to this, he was CFO of Insurance Company Aldagi from 2009 and a member of the supervisory board of My Family Clinic. He started his career in 2003 in the finance department of Insurance Company BCI. Mr Mindiashvili graduated from Tbilisi Technical University and the European School of Management, specialising in the fields of financial mathematics, management systems, financial management and corporate finance.

9. Giorgi Gordadze
Chief Operating Officer, Clinics

Giorgi Gordadze has been in charge of the Clinics business, community clinics and polyclinics (outpatient clinics), since January 2019. Mr Gordadze joined the Group in May 2017 as Head of the Polyclinics business. He has more than 20 years' experience in the pharmaceuticals business and before joining the Group held various managerial positions at JSC GPC, the third largest pharmaceuticals retailer and wholesaler before it was acquired by GHG in May 2016. Prior to joining the Group, Mr Gordadze was the Commercial Director at GPC. Mr Gordadze graduated from the Faculty of Economics at Ivane Javakhishvili Tbilisi State University. He holds an MBA from CERMA business school.

10. Mikheil Abramidze
Chief Operating Officer, Pharmacy and Distribution

Mikheil Abramidze has been in charge of the Pharmacy and Distribution business (GEPHA) since January 2019. Mr Abramidze joined the Group in January 2017 as Head of Operations of GEPHA. Prior to this, Dr Abramidze was COO of ABC Pharmacia for more than 15 years, having founded it with Enrico Beridze in 1999; under their leadership it became the fourth largest pharmaceutical retailer and wholesaler in Georgia. Prior to that, Dr Abramidze was a gastroenterologist at #1 Central Hospital. Dr Abramidze completed his MD in General Medicine in AIETY Highest Medical School.

11. Givi Giorgadze
Chief Operating Officer, Medical Insurance

Givi Giorgadze has been in charge of Medical Insurance business since July 2016. Prior to joining GHG, Mr Giorgadze worked as a Business Analyst at the Secretariat to the Georgia Investors Council. Prior to this role, Mr Giorgadze served at Bank of Georgia for seven years, as a Deputy Head of Investment Management from 2013 to 2015, as a Deputy Global Head of Asset and Wealth Management from 2011 to 2013 and as a Head of Private Banking from 2008 to 2011. He joined Bank of Georgia from the energy sector, where he served as a Head of Customer Service. Mr Giorgadze also worked at Insurance Company BCI as a Head of Sales Office and later as a Director of Corporate Sales. Mr Giorgadze holds an MSc in Finance and Investment from CASS Business School.

12. Mikheil Dolidze
Chief Operating Officer, Diagnostics

Mikheil Dolidze has been in charge of Group's Diagnostics business, and Mega Laboratory, since its launch in December 2018. Prior to this role, he was Head of the Commercial Department of Healthcare Services business since April 2017. Mr Dolidze joined the Group in February 2016 as a Director of the Group's Traumatology Hospital. Mr Dolidze has more than 18 years of experience in healthcare management and held various managerial positions. He was a director of various health institutions and hospitals, and led several international medical missions in Europe, Africa and Asia. Mr Dolidze served as a Deputy Minister of Health, Labour and Social Affairs of Georgia from 2010 to 2012. Mr Dolidze graduated from the Faculty of Medicine at Tbilisi State Medical University. Later, he became a certified medical doctor by completing a residency programme in Gynaecology and fellowship in Reproductive Health. Mr Dolidze completed different international courses in Healthcare Management, International Health and Tropical Medicine.

13. Manana Khurtsilava
Head of Internal Audit

Manana Khurtsilava was appointed Head of Internal Audit on 29 April 2015. She formerly held various managerial positions within the Bank of Georgia Group. Prior to this, Ms Khurtsilava was head of the internal audit department of Insurance Company Aldagi from August 2014. She previously served as the group information and corporate security project manager for Bank of Georgia. During her time at the Bank of Georgia, she has held various senior positions including internal control officer, senior corporate banker and principal banker (from 2003 to 2014). Prior to joining Bank of Georgia, Ms Khurtsilava was a business consultant for the World Bank's CERMA Project in Tbilisi (from 2002 to 2003) and served as a credit administrator in Bank Republic Société Générale Group, Tbilisi (from 2001 to 2002). She holds Masters and undergraduate degrees in economics, major in finance, banking and taxation, from Ivane Javakhishvili Tbilisi State University.

Governance effectiveness and evaluation

Our Board sets a high standard for its own effectiveness in governing a rapidly growing and diversifying company. We have a strong foundation of high in-person attendance, effective risk and control processes, and sound induction and development practices. Through an annual evaluation process for the Board and each member, we evaluate our performance and identify areas for improvement relative to the future needs of the Company's strategy and organisation

Board and Committee meeting attendance

Board member attendance and meeting effectiveness is high. Details of Board and Committee meeting attendance in 2019 are as follows:

Members	Board	Audit Committee	Nomination Committee	Remuneration Committee	Clinical Quality and Safety Committee
Bill Huyett*	4 of 4 8 of 8 ad hoc	–	3 of 3	–	4 of 4
Mike Anderson*	4 of 4 8 of 8 ad hoc	–	3 of 3	–	4 of 4
Fabian Blank*†	4 of 4 8 of 8 ad hoc	–	3 of 3	–	4 of 4
Tim Elsigood*	4 of 4 8 of 8 ad hoc	4 of 4 6 of 6 ad hoc	3 of 3	4 of 4	4 of 4
Nikoloz Gamkrelidze	4 of 4 8 of 8 ad hoc	–	–	–	–
Irakli Gilauri†**	4 of 4 6 of 8 ad hoc	–	1 of 2	–	–
David Morrison*†	4 of 4 6 of 8 ad hoc	4 of 4 6 of 6 ad hoc	1 of 3	4 of 4	–
Ingeborg Oie*†	4 of 4 7 of 8 ad hoc	4 of 4 5 of 6 ad hoc	3 of 3	4 of 4	–
Jacques Richier*†	4 of 4 6 of 8 ad hoc	4 of 4 5 of 6 ad hoc	3 of 3	–	–

Notes:
* Denotes independent Director.
† Messrs Gilauri, Morrison, Oie and Richier were unable to attend the full complement of ad hoc Board meetings. In the instance that they were unable to attend, all Directors provided full comments to the Board on the meeting materials ahead of the meeting.
** Mr Gilauri was a member of the Nomination Committee until 8 December 2019.

Board induction, ongoing development and independent advice

Director induction

Each Director, upon appointment, receives a tailored induction to the Company and its various businesses over the first six months of appointment, with the purpose of building:

- an understanding of the nature of the company, its business and its markets;
- a link with the Company's people; and
- an understanding of the Company's market place and main relationships.

The induction programme will typically involve meetings with members of senior management across the Group. He or she is also advised by the Company Secretarial team and the UK General Counsel of the legal and regulatory obligations of a Director of a company listed in the United Kingdom, including information about the role of the Board and individual Directors, each Board Committee and the powers delegated to those Committees. Induction sessions are designed to be interactive and are tailored to suit the needs of the individual's previous experience and knowledge.

Ongoing development

The Board is committed to the continuing development of our Directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2019, which included briefings, site visits, development sessions and presentations by our UK General Counsel and Company Secretary, members of management and our professional advisers.

During the year, our Company Secretary and UK General Counsel provided updates on diversity initiatives in the UK, including progress on the Hampton-Alexander and Parker Reviews, and remuneration trends and market practice in the UK FTSE main market listed sector.

Independent advice

All Directors have access to the advice of the Company Secretary, the UK General Counsel and, in appropriate circumstances, may obtain independent professional advice at the Company's expense.

Internal controls and risk

The Group has a comprehensive system of internal controls in place, designed to ensure that risks are mitigated and that the Group's quality, operational and financial objectives are met and that risks are properly assessed and managed. The board is accountable for reviewing and approving these. It oversees the activities of the Group's external auditors (supported by the Audit Committee) and the Group's risk management function (supported by the Audit and Clinical Quality and Safety Committees).

A review of the Group's risk management approach is further discussed in the Strategic Report on pages 51 to 54. For detail on the management and mitigation of each principal risk see pages 55 to 60. The Group's viability statement is detailed on pages 54. Please refer to pages 84 to 95 for further detail in relation to the roles of the Audit and Clinical Quality and Safety Committees.

The Group's governance structure for risk management is illustrated on page 52.

2019 improvements to Board operations

The Board dedicates significant time at each quarterly meeting to reviewing performance.

During 2019 we worked with management to improve the performance discussions with the board. These improvements, closely aligned with the expectations of the CEO's new top management structures, included simplifying metrics and improving the synthesis and action orientation of Board and Committee meeting materials. We reflect further on progress for each Committee in the Committee sections later in this report.

Findings of the 2019 board effectiveness evaluation

Our 2019 effectiveness review, supported by the Company Secretary, focused primarily on improvement priorities that we had identified in 2018, namely:

Board and Committee composition, expertise, interaction, management, decision-making processes and board meeting effectiveness.

For further information on the Nomination Committee's role in reviewing Board composition, please see our Nomination Committee report on page 96.

The Board was pleased to note the outcomes of the evaluation undertaken in 2019. They confirmed views on areas of strength and identified areas for further improvement.

Respondents indicated that the performance of the Board had, since the last review, been strong; and that the Board is comprised of people with the right range of skills and expertise to support both the Group's current and future strategic direction. Respondents rated the Board as having a very good understanding of the market environment in which the Group operates; and there were also positive responses in terms of the Board's testing and developing the Company's strategy.

The evaluation also pointed to the continued work undertaken over 2019 to further understand stakeholders and to evaluate the effectiveness of succession planning and talent management processes in each business of the Group. These will continue to be Board priorities in 2020.

Director performance evaluation

Each Director was asked to participate in a self-evaluation as part of the wider Board evaluation. The results were made available to the Chair of the Board; discussions between the Chair and each Director on performance and Directors' contributions to the Board's business take place throughout the year, and are guided in part by the results of that self-evaluation.

In line with best practice, the performance evaluation of the Chair is undertaken by the Non-Executive Directors led by the Senior Independent Non-Executive Director, and take into account the views of executive management and other key stakeholders.

The performance evaluation of Mr Huyett as Chair took place in 2019, with Mr Morrison as Senior Independent Director leading the evaluation process.

Further, Mr Huyett met with the Non-Executive Directors without the Chief Executive Officer present in September 2019. Feedback from that session was provided to Mr Gamkrelidze by the Chair.

Audit Committee Report

Audit Committee Members

- David Morrison (Chair)
- Tim Elsigood
- Ingeborg Oie
- Jacques Richier

The Committee encourages and seeks to safeguard high standards of integrity and conduct in financial reporting, internal control, risk management, and oversees and ensures the independence and effectiveness of internal and external audit processes.

David Morrison
Chair of the Audit Committee

Dear Shareholders,

I am pleased to present the Audit Committee's (the "Committee") Report for the year.

During 2019, the Committee has continued to support the Board and oversee matters relating to financial reporting, risk management and internal control. Some of the key committee activities include:

- reviewing the 2018 Annual Report and Accounts, including confirming that they were fair, balanced and understandable;
- reviewing the quarterly, half year and annual earnings releases;
- reviewing the Viability and Going Concern statements, including the underlying assumptions and stress scenarios;
- refinement of the Group's risk management processes, in coordination with the Clinical Quality and Safety Committee; and
- reviewing the internal Audit Plan and the outcomes of internal audits; and conducting an effectiveness evaluation of the external audit process and reviewing the Company's external auditor, Ernst & Young LLP ("EY"), external audit plan for 2020.

We have considered the latest corporate governance requirements in the new UK Corporate Governance Code (the "2018 Code"), which came into effect from 1 January 2019, and against which we report.

Finally, in the weeks prior to the publication of this report, we have carefully considered the current and potential future impact of the COVID-19 crisis on our business and our financial reporting. While it is too early to make a judgment about the lasting effects of the crisis, the Committee has sought to ensure that the new risks we face have been properly assessed and reflected in our reporting.

David Morrison
Chair of the Audit Committee
7 April 2020

Audit Committee members

The composition of the Committee complies with the 2018 Code, with all of the Committee members being Independent Non-Executive Directors.

The Board is satisfied that each member of the Committee has recent and relevant financial experience. The appointment of Ingeborg Oie as a member of the Committee in 2018 has enhanced the relevant financial experience of the Committee. As a whole, the Committee has competence relevant to the sector in which the Company operates. This combined experience and knowledge enables the Committee to perform its duties properly and deal with issues effectively.

The biographies of the Audit Committee members are set out on pages 78 and 79.

Audit Committee meetings

The Committee holds regular quarterly meetings, and in addition met six other times during the year on ad hoc matters. Regular meetings take place prior to the Board meeting in order for the Committee to report its activities and to raise matters of particular relevance to the Board.

The Committee's agenda for each meeting reflects the events in the annual financial reporting cycle and standing items that are considered within its Terms of Reference. It also reacts to relevant business developments as and when they occur. Meetings are regularly attended by the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Head of Internal Audit, and other members of senior management. The formal meetings are also attended by representatives of EY.

Following a review of the Committee's effectiveness in 2018, it was agreed that Dr Mike Anderson, in his capacity as the Chair of the Clinical Quality and Safety Committee, be invited to attend meetings of the Audit Committee as a standing attendee in order to ensure further alignment between the remit and responsibilities of the two respective committees. As we reflect later in this report in the Committee effectiveness review section, this has led to improved ways of working between the two committees.

Mr Morrison, Chair of the Committee, attends the AGM to respond to any shareholder questions that may be raised on the Audit Committee's activities.

The Committee members and their meeting attendance for the year 2019 is set out in the Board and Committee meeting attendance section on page 82.

The Committee's challenge of management

The Committee recognises the importance of its role, on behalf of shareholders and wider stakeholders, to ensure the integrity of the Group's financial reporting and risk management processes. We rely on a number of sources to ensure this integrity, including the views of the external auditor.

The Committee has worked with management over the course of 2019 to improve the quality of written and verbal reporting to the Committee and we are pleased with progress to date. These improvements have enriched the debate and discussion at the meetings of the Committee and supported the Committee to fulfil its responsibilities, which are set out below.

Audit Committee responsibilities

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year 2019.

The Committee's full Terms of Reference, which outline its primary roles and responsibilities, are available on the website at http://ghg.com.ge/terms-of-references.

Financial reporting

- review the integrity of the interim and annual Financial Statements;
- review the content of the Annual Report and Accounts, and advise the Board on whether taken as a whole, they are fair, balanced and understandable;
- review the appropriateness of accounting policies and practices; and
- review the significant issues and judgements considered in relation to the Financial Statements, including how each was addressed.

External Audit

- review and monitor the objectivity and independence of the External auditor, including the policy to govern the provision of non-audit services;
- review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor; and
- review and make recommendations to the Board on the tendering of the external audit contract, and the appointment, remuneration and terms of engagement of the External Auditor.

Risk management and internal control

- review and monitor the effectiveness of the management of risk and internal control and appropriate systems;
- review the framework and analysis to support both the going concern and ongoing viability statement; and
- oversee appropriate whistleblowing and fraud prevention arrangements.

Internal Audit

- review the Internal Audit Plan and monitor its implementation;
- meet the Head of Internal Audit as required and monitor management's responsiveness to the findings and recommendations of the Internal auditor; and
- review and monitor the effectiveness of the Internal Audit function.

What was on the Committee's agenda during 2019?

The Committee had an extensive agenda of items of business throughout 2019.

	Feb	Mar	Jun	Aug*	Sep	Nov	Dec
Financial reporting and external auditor							
Quarterly results	✓			✓		✓	
Updates to, and full and half yearly report and accounts		✓	✓	✓			
Associated audit reports		✓		✓	✓		✓
Audit planning, fees, independence, effectiveness and re-appointment				✓	✓		✓
Internal audit							
Internal audit function review, status updates and effectiveness		✓	✓	✓			✓
Internal audit plan and associated reports		✓	✓		✓		✓
Risk management and internal control							
Risk strategy		✓					
Review of Going Concern and Viability Statements		✓					✓
Review of Audit Committee risks (including risk heat map)		✓	✓		✓		
Principal risks		✓					
Governance							
Audit Committee effectiveness					✓		
Committee terms of reference and effectiveness		✓					✓

* Two meetings were held in August 2019. The external auditor's interim review results were reviewed on 13 August 2019.

Audit Committee Report continued

Key matters considered by the Committee during 2019

Financial reporting

A principal responsibility of the Committee is to consider the significant areas of complexity, management judgement and estimations that have been applied in the preparation of the Financial Statements.

The Committee received detailed reports from the external auditor in respect of key areas of audit focus during the year. The Committee and the external auditor, without management present, discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate. Taking into account the external auditor's assessment of risk, but also using independent knowledge of the Group, the Committee reviewed and challenged the actions, estimates and judgements of management in relation to the Financial Statements.

As part of its role, the Committee also dedicates time to ensuring that the Group's Alternative Performance Measures are reported in a consistent and transparent way.

Significant risks and financial judgements

Significant risks and financial and accounting issues are discussed with the Committee throughout the year. The table below provides information on the key issues discussed with the Committee in 2019 and the action taken:

Matter considered	Action taken
Going concern and viability	Committee considered management's assessment of the Company's ability to continue as a going concern and its long-term viability taking into consideration the expected impact of the COVID-19 crisis. The Committee reviewed and challenged the inputs and assumptions made during the assessment and ensured that disclosures in the Annual Report and Accounts are appropriate.
Revenue recognition	Consideration of internal controls, assurances from management and engagement with EY
Goodwill impairment	Reports from management and engagement with EY
Provision for ongoing litigation	Reports from management and engagement with EY
Adoption of IFRS 16 leases	Reports from management and engagement with EY

Risk management and internal control systems

The Board understands that strong and effective systems of risk management and internal control play a crucial role in a good system of corporate governance and that it has ultimate responsibility for maintaining and monitoring these systems. The Board's work on risk and internal control is supported by both the Audit Committee, which oversees financial and related risks, and the Clinical Quality and Safety Committee, which oversees clinical and related operational risks.

The Committee derives assurance on the adequacy of the Group's risk management and internal control systems from the following internal and external sources:

Risk management systems

Regular discussion with and reports from the Group's executives contribute to effectively managing risks and opportunities. Timely risk strategy updates from senior management and efficient internal procedures, and processes are in place for identifying, evaluating and managing the principal and emerging risks faced by the Group. These are central to our comprehensive risk management and assessment process. The Committee actively reviews the corporate risk register, monitored by senior management, and ensures appropriate action is being taken to mitigate such risks.

The Committee continues to consider risk at both the strategic and business level, and these considerations inform the assessment of the Group's principal risks and uncertainties, as included on pages 55 to 60 of this Annual Report. In 2019, the Committee has reviewed a number of strategic, operational and reputational risks, including those related to cyber risk and information security, internal or external fraud or misconduct, as well as participating with the Board in a wider review of strategic, political, business, and environmental and social risks.

The Committee has also considered and confirmed to the Board that its work is performed in accordance with the provisions in the Code and the Financial Reporting Council's ("FRC") associated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Based on the above, the Committee is satisfied that the overall internal control framework is effective.

Internal audit

The Internal Audit department serves as the Group's independent assurance over the adequacy and effectiveness of the corporate and business risk management processes, and systems of internal control in place across the Group.

The Internal Audit function has continued to evolve throughout 2019. Internal Audit covers clinical and non-clinical matters, which included financial and operational matters identified as key risk areas by the CEO, the CFO, the Head of Clinical Operations and the Head of Risk. Such material matters are regularly presented to, and agreed with, the Audit and Clinical Quality and Safety Committees.

The Committee reviews the Non-Clinical Internal Audit Policy and oversees the development of the Non-Clinical Internal Audit Plan designed using a risk-based approach aligned to the risks identified by management and the Group's wider strategic priorities.

The Committee then proceeds to review the progress of, as well as results from, the Internal Audit plan to ensure that they are in line with the Committee's expectations. The Head of Internal Audit attends and provides updates to the Committee, summarising the internal audit findings and the progress made against agreed actions from previous audits.

Matters include reporting on significant findings on a range of business-specific areas.

Set out below are examples of the reviews undertaken by the Internal Audit team over 2019, alongside details of how the findings from the reviews have been addressed by management.

Type of audit	Action taken
Cash management	Actions agreed by management in respect of securing increased efficiencies and process optimisation, including enhanced usage of software for automation and validation of cash management processes.
Procurement processes	Management actions in progress, including developing further reconciliation processes between the Group's businesses and suppliers, and greater collaboration between Internal Security and Purchasing teams. Further awareness-raising across the business of the Group's whistleblowing channels.
Complaints handling processes	This was a follow-up audit pertaining to specific areas of business within the Group. Following internal audit recommendations, management implemented further improvements to the ways in which customer complaints data is collected and analysed, and further improvements made to the operation of internal governance structures around managing customer complaints.

The focus of internal audit activity is on the issues that are most likely to materially impact on the delivery of the Group's strategy, thereby ensuring a direct link between the work of the Internal Audit team and the Group's strategic objectives.

The Committee is confident that the audit processes in place are effective in identifying control weaknesses and corrective measures. The Committee is pleased to report that during 2019 and up to the date of this Annual Report, the Internal Audit team did not find any significant weaknesses in risk management processes or internal controls. The Committee continues to conclude that the Internal Audit function is effective, respected by management and confirms to the standards set by the Institute of Internal auditors.

Whistleblowing, conflicts of interest and anti-bribery and anti-corruption policies and procedures

The Committee also monitors regularly the Group's compliance with the corporate governance policies and procedures in relation to anti-bribery and anti-corruption, and conflicts of interest.

During 2019, the Committee approved updates to the Company's Anti-Bribery and Anti-Corruption Policy to be in line with both recommendations under the revised UK Corporate Governance Code and in line with general good practice.

As previously reported, as per the 2018 Code, the Board has overarching responsibility for, and approval of, the Company's whistleblowing arrangements, including overseeing how the policy is implemented. This is in recognition of the importance that the Board attaches to robust whistleblowing arrangements and developing good corporate governance practice. For further details of our whistleblowing arrangements, including further details on how the Whistleblowing Policy and procedures are implemented across the Group, please see the **Resources and Responsibilities section** of this Report.

This year, the Committee reviewed the Group's Anti-Bribery and Anti-Corruption Policy and procedures and received reports from management on a regular basis in relation to any actual or potential wrongdoing. The policies can be found on the website at http://ghg.com.ge/policies.

Going Concern and Viability Statement

The Committee has a reasonable expectation that the Group will have adequate resources to continue operating for the next year. The Financial Statements are therefore prepared on a going concern basis.

The Committee has concluded that a three-year assessment period of the Group's viability, given the nature of the business and the regulatory investment and planning cycles, remains appropriate. The analysis was discussed with management and the full Board. The Group's Viability Statement can be found on page 54.

As in previous years, the Committee actively challenged the formulation of the Viability Statement for the Group throughout its development, including a two-stage process under which, prior to the final review by the Committee of the draft Viability Statement, the assumptions and stress scenarios underpinning the Statement were first carefully scrutinised.

Further information on the process by which the Going Concern and Viability Statements have been considered and formulated is on page 54.

Audit Committee Report continued

External audit

The Committee's responsibilities for the external audit process on behalf of the Board throughout 2019 include:

- Approving the annual audit plan, which includes setting the areas of responsibility, scope of the audit and key risks identified
- Overseeing the audit engagement, including the degree to which the external auditor was able to effectively assess key accounting and audit judgements
- Reviewing the findings of the external audit team with the external auditor, together with the level of errors identified during the audit
- Monitoring the responsiveness of the relevant management teams to the external auditor's findings and recommendations along with any corrective measures taken
- Monitoring the rotation of key partners of the external audit in accordance with applicable legislation
- Monitoring the extent of the external auditor's independence and objectivity, as well as their compliance with ethical, professional and regulatory requirements
- Reviewing the qualifications, expertise and resources of the external auditor
- Reviewing the level of audit fees and the cost-effectiveness of the audit

Tenure

EY were appointed as the Group's statutory auditors in 2015 ahead of the listing on the London Stock Exchange. As detailed in our previous Annual Report, following a competitive tender process in 2018, EY were re-appointed by shareholders at the 2019 AGM, and the Audit Committee was authorised to set the remuneration of the auditor, with 100% votes in favour for each resolution.

In 2019, EY appointed John Flaherty as lead partner, succeeding Richard Addison.

The external auditor is required to rotate the audit partner responsible for the Group at least every five years. Following a tender for the provision of external audit services in 2018, the Group will be required to put the external audit contract out to tender no later than 2028. The Committee is comfortable that this period is appropriate for the Group and that there are a number of measures in place to monitor the external auditor's independence, as set out subsequently in this Report.

Non-audit services

The Committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, helping to ensure that the external auditor maintains the necessary degree of independence and objectivity.

During the year, the Committee considered the extent of the non-audit services provided by EY. Further details as to both audit and non-audit fees can be seen in Graphs 1a and 1b on page 89.

The Committee's policy on the provision of non-audit services by our external auditors aligns with the current EU Statutory Audit regime and recent amendments to the 2018 Code. Any work other than for audit or review of interim statements to be undertaken by the external auditor now requires authorisation by the Committee except in very narrow circumstances. The Group's Non-Audit Services Policy was revised and approved in September 2019, and can be found on the website at http://ghg.com.ge/policies.

Independence

The Committee has undertaken a formal assessment of EY's independence, which included a review of:

- a report from EY describing their arrangements to identify, report and manage any conflicts of interest;
- their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and
- the value of non-audit services provided by EY.

EY have confirmed that they believe they remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards.

As indicated in Note 29 of the audited IFRS Financial Statements for 2019, the total fees paid to EY for the year ended 31 December 2019 were GEL 1,427 million, of which GEL 391 million related to the Group's 2019 half year interim accounts review. The scope of, and fee for, the non-audit services provided by EY in 2019 (which related to a survey of remuneration) were pre-approved by the Board.

Graph 1a: Audit services fees

(GEL)

Graph 1b: Non-audit services fees

(GEL)

Effectiveness of the external audit process

The Committee is confident that the evaluation process is effective, allowing for an objective assessment against the principal focus areas.

The Committee has an established framework for assessing the effectiveness of the external audit process and includes:

- a review of the audit plan, including the materiality level set by the auditor, and the material financial statement risks and key areas of audit focus
- regular communications between the external auditor and both the Committee and management, including discussion of regular reports prepared by EY
- regular discussions with EY (without management present) and management (without EY present) in order to discuss the external audit process
- a review of the final audit report, noting the conclusions reached by the auditors and the reasoning behind such conclusions
- a formal questionnaire issued to all Committee members and to executive management, which includes the quality of the audit and audit team, the audit planning approach, execution and communications, the presence and capabilities of the lead audit partner and EY's independence and objectivity

After taking these matters into account, the Committee concluded, in conjunction with management, and reported to the Board that in their opinion:

- EY maintain a strong reputation in the market;
- the audit team's coverage of all key operations were sound; and
- EY continued to remain independent and objective.

We are satisfied that the relationships between the external auditor and management allow for scrutiny challenge of views on both sides and we are pleased that the evaluation confirmed the ability and willingness of the external auditor to challenge management views in a constructive and proportionate manner.

The Committee has recommended to the Board that EY be re-appointed under a new external audit contract and the Directors will be proposing the re-appointment and the determination of EY's remuneration at the 2020 AGM.

Fair, balanced and understandable reporting

The Committee has reviewed the 2019 Annual Report to consider whether it provided a true and fair view of the Group's affairs at the end of the year, and provided shareholders with the necessary information in a fair, balanced and understandable way in order to enable them to assess the Group's position, performance, business model and strategy.

There was a rigorous review process and challenge at different levels within the Group to ensure balance and consistency. The Committee also reviewed copies of the 2019 Annual Report and Financial Statements during the drafting process to ensure key messages and themes being followed throughout the Annual Report were aligned with the Group's position, performance and strategy intentions, and that the Annual Report's narrative reporting was consistent with the Financial Statements.

Audit Committee Report continued

When forming its opinion, the Committee considered the following questions in order to encourage challenge and assess whether the Annual Report and Accounts were fair, balanced and understandable:

Is the Report fair?	• Is the whole story presented? • Have any sensitive material areas been omitted? • Are the KPIs disclosed at an appropriate level based on the financial reporting?
Is the Report balanced?	• Is there a good level of consistency between the front and back sections of the Annual Report and Accounts? • Is the Annual Report a document for shareholders and other stakeholders?
Is the Report understandable?	• Is there a clear and understandable framework to the Annual Report? • Is the Annual Report presented in straightforward language, and a user-friendly and easy to understand manner?

Conclusion

After completion of its detailed review, the Committee was satisfied, when taken as a whole, the Group's Annual Report and Accounts were fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness review

Following an externally facilitated review of the Committee last year, performed by Linstock, a review of the Committee's performance in 2019 was facilitated internally by the Company Secretary.

The focus	The review principally addressed the following areas of the Committee: **1.** composition of the Committee; **2.** processes and support; and **3.** the scope of the Committee's work in 2019.
The response	All three areas of focus received very positive responses, with particularly strong responses being received in respect of the following: • the Committee's processes around the identification and reporting of risks; and • oversight of high-quality risk reporting in financial reports. Respondents remained satisfied that composition of the Committee remained appropriate, highlighting the mix of complementary skills and experience. Positive responses were received regarding the respective remits of the Committee and the Clinical Quality and Safety Committee (which had been identified as an area for improvement in 2018's review). Following a change to the ways of working between the two Committees, clearer roles and responsibilities and improved reporting between the two Committees were reported. In terms of potential areas for improvement, the Committee notes that while the agenda and papers focus on the right areas, there may be scope in 2020 to improve the consistency of the quality of presentations at meetings.
The 2020 action plan	• Monitor the recommendations of the effectiveness review undertaken in 2019. • Increase a focus on the individual and specialised reports submitted to the Committee's meetings, with a focus on the key points for the Committee's attention.
Looking ahead to 2020	Based on the results of the evaluation and further internal discussion, the Company's priorities for 2020 are to: • assure continued integrity and balance in the Group's financial reporting; • continue to monitor the coordination of work with the Clinical Quality and Safety Committee on overlapping areas of operational, clinical and financial risk; and • work with management to ensure continued focus on the most material matters and key points for the Committee's attention through reporting.

Clinical Quality and Safety Committee Report

Clinical Quality and Safety Committee Members

- Mike Anderson (Chair)
- William Huyett
- Fabian Blank
- Tim Elsigood

The Committee's focus is to ensure the care provided to patients is of a consistently high level, providing a strong and effective clinical governance platform for the Group to continue to grow.

Mike Anderson
Chair of the Clinical Quality and Safety Committee

Chair's Overview

I am delighted to present my report for 2019.

The role of the Clinical Quality and Safety Committee (the "Committee") is centred on ensuring that, as the Group grows and the range of services provided continues to expand, the care provided to those in our facilities is of a consistently high level and that the Group continues to deliver on improvements in clinical quality and safety in each of its facilities. We aim to ensure these high standards are delivered consistently irrespective of where in the country our patients are receiving care.

I am pleased to report that we have made significant progress this year.

Our focus during 2019

- Embedding the Group's clinical risk management framework
- Overseeing the formation of our medical boards to support clinical quality improvement work
- New health and safety initiatives across the Group
- Tackling Antimicrobial Resistance (AMR)

This provides an excellent benchmark for us to understand where we are working well and the reasons why we work well, and to gain insight into further improvements that are required.

Although we are pleased to see the progress in clinical care and quality this year, we are not complacent. We see, for example, that many of our facilities are delivering outstanding levels of care to patients but we need to continue to build on this. There remains more for us to do to deliver the consistency in standards of care that we challenge ourselves as a Group to provide.

I reported in last year's report that the opening of the Mega Lab in December 2018 was an important step in improving our clinical and pathology testing, and represents a new benchmark in both Georgia and the wider Caucasus region. The launch was in line with the Group's wider strategy to invest in and develop new medical services to continue to meet existing service gaps in the country, supporting the market's continuing development and our services export strategy. I want to take this opportunity to commend management for their continued work in developing the capabilities and capacity of Mega Lab over the course of 2019.

I would also like to take this opportunity to thank both management and clinicians for the service they continue to provide to the Group and to our patients. As a Committee, we have made a point to visit a number of the Group's facilities across Georgia throughout 2019, and we continue to be deeply impressed by the dedication of all staff.

I invite you to read more about the Committee's work in the report below.

Mike Anderson
Chair of the Clinical Quality and Safety Committee
7 April 2020

Clinical Quality and Safety Committee Report continued

Key responsibilities

The Clinical Quality and Safety Committee supports the Board in overseeing the Group's non-financial risks and their associated risk management framework, including the related governance, internal control systems and assurance.

The Committee's work is aimed at promoting a culture of high-quality and safe patient care and experience, which recognises the importance of health and safety, and risk management.

In September 2019, the Committee reviewed its terms of reference, ensuring that the Committee's remit and responsibilities remain clear and appropriate. The Committee's terms of reference can be viewed on the website at http://ghg.com.ge/terms-of-references.

The key responsibilities of the Clinical Quality and Safety Committee are to:

Clinical and regulatory risks

- review the Group's clinical performance, including against KPIs, providing recommendations and information to the Board to enable it to discharge its responsibilities in relation to the matters reserved to it;
- scrutinise the adequacy, effectiveness and quality of the Group's clinical services, governance, audit and risk management processes and policies (including in relation to infection control) to ensure the delivery of safe, high-quality clinical services to patients;
- monitor unexpected deaths occurring in hospital sites, ensuring that root causes are identified and that remedial action plans are adequate, and reporting on such monitoring activities to the Board;
- review evidence of compliance with statutory notification requirements, as well as responses to statutory notices issued by competent authorities, and report these to the Board;
- review evidence of compliance with regulation and best practice and the Company's policies and procedures in respect of clinical care and quality, and reporting this to the Board;
- review themes and trends in relation to claims and complaints, and patient experience and feedback, relating to the Group's clinical practices;
- review the Group's information governance policy and processes and any breaches thereof, particularly in relation to Patient Identifiable Data; and
- review the Company's risk management and internal control procedures on an annual basis.

Health and safety

- review the Group's health and safety performance;
- scrutinise the adequacy, effectiveness and quality of the Company's health and safety policy, and procedures to ensure a safe environment for those at the Group's facilities; and
- help management to respond appropriately on health and safety matters by identifying themes and trends in health and safety management reports.

In discharging its duties, the Committee engages with and receives regular reports from the Head of the Clinical Department and supervises the clinical quality aspects of internal audit. The organisational and reporting structure of the internal audit department is set out on page 52.

There is a distinction of risk categories between the Committees of the Board. The Audit Committee oversees financial-related risks, IT, cyber security, compliance and similar areas of operational risks. The risk categories overseen by the Clinical Quality and Safety Committee include:

- variation in clinical quality and safety standards across our facilities;
- medical and clinical record-keeping (and similar statutory compliance); and
- health and safety.

> "I know that the people working in our hospitals and clinics value the opportunity to meet with Directors, to get a better understanding of the work of the Board, and to be able to share their insights and experiences."

Gia Khurtsidze
Chief Clinical Officer

Composition of the Clinical Quality and Safety Committee

The Clinical Quality and Safety Committee is required under its terms of reference to have at least four members, at least two of whom must be independent Non-Executive Directors. The Board appoints the Chair of the Committee who must be an Independent Non-Executive Director.

The biographies of the members of the Clinical Quality and Safety Committee are set out on pages 78 and 79.

The composition of the Committee and the members' meeting attendance for the year 2019 is set out on page 82.

Clinical Quality and Safety Committee Meetings

The Committee met four times during the year. At each meeting, the Committee received detailed reporting on clinical performance, the results of the latest internal audits, the audit plan and forward-looking priorities.

Meetings of the Committee take place prior to the Board meetings in order for the Committee to report its activities and matters of particular relevance to the Board. The Committee's agenda for each meeting allows members and management to effectively discuss key clinical quality and safety issues.

Meetings are regularly attended by members of the Company's Senior Management Team, including the Chief Executive Officer and the Head of the Clinical Department, as well as members of the internal and clinical audit teams. The Committee also benefits from meetings with various senior members of staff from across the Group, and this engagement affords the Committee with a better understanding of how quality and safety are embedded across the Group. In addition, non-Committee Board members are also invited to attend.

As we detail in the Audit Committee Report, Dr Mike Anderson is invited to attend meetings of the Audit Committee as a standing attendee to ensure greater alignment between the roles and remits of the two respective committees.

Through formal communications, including meeting materials and the presentations received at meetings, a range of site visits and other updates between meetings, the Committee believes that it has received sufficient, relevant and reliable information from management, Internal Audit and the Clinical team to enable it to discharge their responsibilities.

Committee activities in 2019

The Committee undertook a wide range of activities and projects throughout the year, to ensure effective and robust clinical governance to deliver a high standard of healthcare for patients.

Medical boards

The Committee has focused on the formation and development of specialist medical field boards within the Group's facilities. Members of the medical boards were invited to attend the Committee meetings.

The effectiveness of the medical boards is assessed through key performance indicators, which include clinical, educational, quality and developmental components. The overarching aim of the medical boards is to improve consistency in the treatment of certain key clinical areas, including cardiovascular disease, oncology, ophthalmology and neurology, and to share areas of leading practice amongst clinicians.

In 2019, the Committee received regular updates on the implementation of the medical boards and the ways in which these boards were driving improvements in clinical care. While initial progress is positive, the Committee recognises that the medical boards are in the early stage of their implementation, and this will continue to be an important area for the Committee to oversee in 2020.

Health and safety

The Committee receives regular health and safety information and presentations from management regarding processes and procedures within the Group's facilities, and has allowed discussion on a broad range of topics.

Topics in 2019 have included:

- environmental safety;
- critical systems safety;
- radiation safety;
- life and fire safety, including fire detection and prevention; and
- emergency response actions.

Clinical Quality and Safety Committee Report continued

Clinical ambulatory care strategy
The Group's clinical ambulatory care strategy has evolved during 2019, and the Committee is pleased to note that a number of new targets and measures are now in place to drive delivery of this strategy. At its heart, the strategy is focused on delivering continued improvements in ambulatory care for patients, and to ensure the availability of resources and capabilities to achieve those priorities.

Facility engagement
The Group's hospitals and clinics are vital to the continued delivery of services to patients. The Committee will continue to monitor the clinical standards in these new units. Additionally, the Committee is kept informed on the Ministry of Labour, Health and Social Affairs regulatory visits, inspections and reports on the facilities of the Group. The Clinical Risk department reports to the Committee on these matters, on the Group's discussions with the Ministry of Labour, Health and Social Affairs, and on audits arising from regulatory matters.

The Committee members visited patients in a range of the Group's facilities to gain further insight into the range of services offered and understand the patient experience. During 2019, the Committee members visited a number of the Group's facilities, including having meetings with management and leading healthcare professionals:

Date of visit	Facility
March 2019	• Mega Lab • Tbilisi Polyclinics
June 2019	• Iashvili Children's Central Hospital • Trauma Clinic
September 2019	• Telavi Referral Hospital • Kvareli Hospital
December 2019	• Gldani Polyclinic • Saburtalo Polyclinic • Tbilisi Referral Hospital

Oversight of quality and management
Management continues to improve the quality of data and information presented to the Committee, which has enabled the Committee to further develop knowledge and insight into what works well within the Group's facilities, and areas in which further improvement work may be undertaken. Following the establishment and continuing embedding of the revised clinical quality risk framework for the business, it is clear the framework is vital for the Group and further ensures the safety and wellbeing of patients.

A significant amount of time has been spent monitoring progress on a number of clinical improvement projects regarding, for example, sepsis risk, pneumonia risk and perioperative antibiotics. The Committee is pleased to note that, further to reports in 2018 on certain control weaknesses, significant improvements have been reported in 2019 in the Group's antibiotic management processes. The Committee expects to see continued improvement in this area.

The Committee has also focused on the issue of Antimicrobial Resistance (AMR), a complex issue which requires several different interventions in order to adequately address it. Therefore, a two step approach was chosen for improvement:
1. an infection control and prevention programme (IPC); and
2. antibiotics use optimisation.

Further information on this approach can be found in the risk management section starting on page 51.

Educational materials, training and active involvement by hospital management and employees have enabled such projects to make positive progress. The advancement of the specialist medical boards has assisted in focusing on key areas of improvement, utilising technical knowledge of members and allowing for further integration between the specialist medical boards and specialist clinics, in addition to the Committee itself.

"Our site visits ahead of each Committee meeting are important to each member of the Committee. We can see for ourselves the significant progress we are making in clinical quality and understand some of the challenges that remain. The dedication and commitment of our professionals never fails to impress us."

Dr Mike Anderson
Chair of the Clinical Quality and Safety Committee

Internal Audit

The Head of Clinical Process unit of the Internal Audit team updates the Committee at every meeting on audits undertaken over the year.

This year's internal audits have included:

Management of Type II Diabetes in primary healthcare setting

Based on the internal audit assessment results and recommendations, the Clinical department created relevant clinical protocols and implementation is in process.

Clinical Quality Improvement Project

The Internal Audit team periodically assessed the achievement of targeted clinical indicators in the management of sepsis, community-acquired pneumonia and prophylactic antibiotic/urinary catheterising.

The Committee is pleased to note that management engagement with both the findings of the clinical Internal Audit team and its recommendations continues to improve, and we are seeing significant change in the speed with which management recommendations are being taken forward. The Committee will continue to monitor this over 2020.

Committee effectiveness review

The focus	The review principally addressed the following areas of the Committee: 1. composition; 2. processes and support; and 3. work undertaken throughout 2019.
The response	All three areas of focus received very positive responses, concluding that the Committee operates and performs effectively. Particularly strong responses were received in respect of the following: • overseeing the Group's performance in improving clinical quality across its facilities; and • reviewing and challenging internal audit findings. Respondents remained satisfied that composition of the Committee remained appropriate, highlighting the mix of complementary skills and experience. There was general consensus that, while there may have been improvements in the quality of reporting, there remains further work to do in improving the consistency in quality of reports presented to the Committee.
The 2020 action plan	• To ensure the formation of medical boards within the Group continue to drive the clinical quality agenda; and • The Committee to continue to actively engage with Board's work.
Looking ahead to 2020	The Clinical Quality and Safety Committee considered its priorities for 2020 and its focus for the coming year is to: • continue to drive the formation and development of specialist medical field boards and ensure responsibilities are executed to a high standard; and • progress improvement projects across the Group's facilities, and analyse any other key areas for development.

Nomination Committee Report

Nomination Committee members

Ingeborg Øie (Chair)	William Huyett
Mike Anderson	David Morrison
Fabian Blank	Jacques Richier
Tim Elsigood	

This year, the focus of the Nomination Committee was to ensure the effectiveness of our succession planning processes, that we continue to attract and develop our talent and that diversity is championed and valued across the business.

Ingeborg Øie
Chair of the Nomination Committee

Chair's Overview

I am pleased to present the Nomination Committee Report for 2019.

The Nomination Committee has this year given a renewed focus on Board and senior management succession planning. As we report elsewhere in this Annual Report, a focal area for Directors in 2019 has been to understand and to assess the strength of our talent pool at senior and middle management level, and we have begun a number of initiatives that allow all Directors more time with employees across the Group to get a feel for our succession and development plans in action. We have spent considerable time as a Committee looking at our long-term succession planning needs across the Group, and have assessed the areas where we are particularly strong in terms of successors and those areas where we need to further develop our depth of potential senior managers.

The Nomination Committee is of the view that diversity at all levels of the Group is pivotal to the effective delivery of our strategy. The more diverse we are as a company, the greater access we have to both a greater range of talent and to greater insight into the requirements of all of our patients and other stakeholders. We were very pleased to receive a report from management on the number of initiatives being undertaken across the Group to support diversity in all its forms, and this will continue to be an important area of focus for us in 2020.

The Nomination Committee also oversaw the Board and Committee evaluation process for 2019, which was conducted internally this year and was facilitated by the Company Secretary.

I am confident that the Company has dedicated, and continues to dedicate, significant time and energy toward ensuring that our Executive and Non-Executive appointments and succession processes are effective and appropriate for the Company.

I invite you to read more about our work in the following report.

Ingeborg Øie
Chair of the Nomination Committee
7 April 2020

Composition of the Nomination Committee and meetings

As of the date of this report, all members of our Nomination Committee are Independent Non-Executive Directors. The biographies of the members of the Nomination Committee are set out on pages 78 and 79.

The composition of the Nomination Committee and the members' meeting attendance in 2019 is set out in the Board and Committee meeting attendance section on page 82.

Meetings are attended by the Chief Executive Officer and, from time to time, other members of management may be invited to attend meetings in order to provide a fuller picture and deeper level of insight into key issues and developments. In 2019, the Nomination Committee spent considerable time with the Chief Human Resource Officer.

Meetings of the Nomination Committee take place prior to the Board meetings in order for the Nomination Committee to report its activities and matters of particular relevance to the Board.

Responsibilities of the Nomination Committee

The responsibilities and functioning of the Nomination Committee are governed by formal Terms of Reference approved by the Board. These were most recently reviewed by the Nomination Committee and the Board in December 2019, and are available on the Group's website: http://ghg.com.ge/uploads/files/ghg-nomination-committee-tors-7.pdf.

The key responsibilities of the Nomination Committee are:

- to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board, and make recommendations to the Board with regard to any changes;
- to give full consideration to succession planning for Directors and other senior management, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed on the Board in the future;
- to be responsible for identifying and nominating candidates, for the approval of the Board, to fill the Board vacancies as and when they arise;
- to evaluate the balance of skills, knowledge, experience and diversity on the Board and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;
- to review annually the time required from the Non-Executive Directors. Performance evaluation should be used to assess whether the Non-Executive Directors are spending enough time to fulfil their duties;
- to take into account the need for progressive refreshing of the Board by rigorously reviewing the performance of the Non-Executive Directors; and
- to make recommendations to the Board concerning the formulation of succession plans for both Executive and Non-Executive Directors.

Continuing education and training

The Nomination Committee received refresher training on the UK Corporate Governance Code from the UK General Counsel ahead of its implementation and further guidance on the implications during the year, and an update from the Company Secretary on global diversity initiatives.

Nomination Committee activities in 2019

Succession planning at Board and Committee level

Board-level succession planning

In 2019, the Board, upon the Nomination Committee's recommendations, refreshed the membership of the Nomination Committee to ensure that it continues to have the right mixture of skills, experience, knowledge and independence to function effectively. Mr Gilauri stepped down from the Nomination Committee as of 8 December 2019.

A particular focus for the Nomination Committee in 2019 has been on ensuring that there are effective succession planning processes in place, both for executive management and non-executive positions on the Board. We previously undertook a skills assessment exercise in late 2017, following which a number of skills and competencies were identified as being of potential benefit to the Board membership. Following this exercise, Fabian Blank was appointed, with a view in part to the digital healthcare experience and expertise he would bring to the Board.

The Nomination Committee has been mindful of the ways in which the Company's strategy has evolved since 2017 and repeated the same skills exercise in 2019. In particular, the Nomination Committee considered the future growth areas of the Group in order to assess if the Board possesses the right mix of skills. No urgent skill gaps were identified. However, the significant contribution of pharmacy retail and other more consumer-oriented initiatives to the Group's future growth is an area to pay particular attention to when assessing future candidates for the Board.

Review of the Non-Executive Directors' time commitments

We also reviewed the time commitment of the Non-Executive Directors. Following careful consideration of a range of factors, including all the Directors' other current time commitments, of the outcomes of this year's Board and Committee effectiveness review – which concluded that the Board functions as a highly effective and efficient team – and with regard to the required skills on the Board to meet current and future priorities, the Nomination Committee is pleased to recommend to shareholders, through the Board, the re-appointment of all Non-Executive Directors at our 2020 Annual General Meeting.

Our Director appointment process

The Board has formal, thorough and transparent procedures in place for Board recruitment and appointment. As mentioned above, the Company's goal is to ensure that the Board is well-balanced and appropriate for the needs of the business. The Nomination Committee has regard to the Board's balance of skills, knowledge, experience and diversity, including gender.

How do we identify candidates?

As we detail in the succession planning section above, the Nomination Committee frequently considers a skills matrix for the Board, which identifies the core competencies, skills, diversity and experience required for the Board to deliver its strategic goals. The Nomination Committee reviews the skills matrix when considering a potential new appointment to the Board, as well as reviewing the current and expected Board and Board Committee composition.

Any gaps in the Board's needs, identified either as part of a current Director's retirement, or in view of the changing strategic priorities, are used to inform the search for a new Director or Directors and the specific skills that are required will be identified, for example, an individual with international experience, or recent history serving on a particular Board committee.

In identifying suitable candidates, we typically seek recommendations from trusted advisers but may also use open advertising or external search services to facilitate the recruitment. We carefully assess each candidate against our objectives and the Diversity Policy, and take care that appointees have enough time available to devote to the position.

The Nomination Committee is cognisant of Board diversity targets, including those recommended from the Parker Review and Hampton-Alexander Review, and received updates on progress seen in peer companies against both Reviews in 2019. The Nomination Committee continues to consider both the most effective means of promoting diversity in all forms when considering Board appointments. Whereas the Nomination Committee has opted not to adopt Board diversity targets at this stage, the Nomination Committee will continue to advocate for diversity in all its forms when considering a new Board appointment. Our Diversity Policy and the Board's engagements with management and employees will continue to promote an inclusive and diverse culture.

What is the appointment process employed?

Shortlisted candidates are generally seen first by the Chair, the Chair of the Nomination Committee, the Senior Independent Non-Executive Director and the CEO. If the selection process progresses further, each potential candidate is invited to meet other members of the Nomination Committee as well as members of management. We then decide whether to recommend to the Board that the candidate be appointed first as an adviser to the Board. It is our usual practice to appoint a Board candidate as an adviser prior to offering an appointment to the Board. This serves as an extended assessment of the candidate, who is paid the equivalent of a Director's fee and whose remit is restricted to Board matters.

After a candidate has served as an adviser, the Nomination Committee will agree whether to recommend that the candidate be appointed to the Board. The Board will ultimately resolve whether to make the suggested appointment.

Nomination Committee Report continued

Talent management at senior and middle management level

In discussions on talent management in the Group, the Nomination Committee received reports in 2019 on the talent pipeline across the Group for senior management positions, and the ways in which career pathways are proactively developed for those with the potential to take senior management positions in the future.

The Nomination Committee has paid additional focus to this area in 2019, and is pleased to report on the wide range of processes and mechanisms in place across the Group to identify and manage talent. The Nomination Committee continues to see succession being a blend of both internal promotion and external recruitment, in order to ensure that the Group retains its best talent, but that new ideas and challenges to the existing ways of working are introduced through external appointments.

In 2019, the Nomination Committee received a number of updates from the Chief Executive Officer and Chief Human Resources Officer on talent at senior and middle management levels. These updates have focused on the process for:

- identifying highly talented individuals who are ready for senior management positions in the short to medium-term;
- supporting those individuals in their career progression and readiness;
- identifying talent with potential to develop into future leaders over a longer period of time; and
- managing high-potential talent in their early career.

As we reflect in our **Resources and Responsibilities** section of this Report, the Board was pleased to meet with a number of middle managers across each of the businesses in 2019. This was an important opportunity for the Board to meet with the longer-term generation of senior management talent that is being developed across the Group, for each Director to share their career experiences and to allow the Board to get a feel for the Group's and individual business culture 'in action'. We reflect on the Board's wider engagement with employees on page 72.

On balance, the Nomination Committee is pleased to see the overall strength of talented individuals that have been developed across the Group, the strength of our talent identification and management processes, and is satisfied that there are both short-term and longer-term successors identified for most of the key positions across the Group.

In order to develop this talent, we are committed to talent development programmes and initiatives within the Group. We increase the skills of our existing executive managers and develop a pipeline of new executive, senior and middle-managers through coaching, mentoring and leadership programmes. We continue to expand our programme year-on-year to include management at lower levels.

Our talent development programmes continue to be characterised by transparency, viewing oneself as part of a team of leaders, helping others to succeed and honest feedback. They are also focused on the promotion of teamwork and development of teams, and the development of our business and the Group's culture. For further information on our talent management programmes, and the ways in which those have developed over 2019, please see pages 42 to 44 in the Strategic Report.

Promoting diversity at all levels

Diversity and inclusion continue to be an area of focus for the Nomination Committee. The Board has long understood the importance of diversity within our workforce, and particularly the value of developing a diverse pipeline for succession to senior management. The Nomination Committee recognises a number of studies that show correlation between greater Board and senior management diversity and long-term Company performance, and has sought over the course of 2019 to actively promote inclusion and diversity across the Group.

35

is the average age of our next generation of senior managers

39%

of our current senior managers are female

67%

of our participants in our 2019 middle management leadership programme were female

In September 2019, the Nomination Committee received a comprehensive update on developments in global corporate governance relating to diversity. This included updates on progress in the Hampton-Alexander Review and Parker Review. Given that the Group is not a constituent of the FTSE 350 Index, the Nomination Committee is mindful that the Group is not directly bound by either review; nonetheless, the Nomination Committee strongly supports the aims and ambition of both reviews.

In December 2019, the Nomination Committee received an update on diversity, as measured by a number of metrics including age, gender, social and professional backgrounds, across the senior management team of each business. The Nomination Committee welcomed the initial analysis of the pool of successors, noting the diversity of gender, age, education, and professional experience present within the succession pool. We are pleased that the Group, across all levels of the business, is showing a demonstrable commitment to diversity in all of its forms, in developing the next generation of senior managers. A total of 46% of senior management successors identified to the Nomination Committee are female; with the average age of those successors being 35 years old. We feel that this is a good indicator of our culture at Group-level in building a truly meritocratic organisation.

Increasing the number of women at senior management level has been one of the strategic focuses of our diversity approach. In 2019, 39% of women were in Group senior management. We are making important progress, and to ensure we continue this momentum, two of the Group's strategic programs – the Leadership Development Programme and the Successors and Talent Pooling Programme for senior managers represent growing trend of women empowerment. A total of 67% of women engaged in the Leadership development programme, and 60% of promotions from the Leadership pool were women during 2019. The Group C-level successors pool is represented by 54% women. The Nomination Committee is mindful of the broader focus on gender diversity, and is pleased with the encouraging gender metrics within the leadership development programme and succession planning pools described above.

Whilst more difficult to capture, the Nomination Committee strongly champions cognitive diversity at each level, and has been pleased with the efforts made by management to incorporate diversity of cognitive and personal strengths as a key metric in determining the context of succession planning.

Our Diversity Policy (the "Policy") in action

The Company is fully committed to ensuring there is no unlawful or unfair discrimination, and it values the benefits that a diverse workforce brings to the organisation. The Board embraces diversity in all its forms as reflected in the Policy, described in this section. Diversity of skills, background, technical expertise, nationality, ethnicity and gender, amongst other factors, will be taken into consideration when seeking to appoint a new Director to the Board.

The Nomination Committee and the Board are committed to the principle that appointments and succession plans at Board and senior management-level should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

All employees

The recruitment and selection process is a crucial step in the implementation of the Policy, described in this section. We endeavour, through appropriate training, to ensure that employees making selection and recruitment decisions do not discriminate, whether consciously or unconsciously, in making these decisions. All employees involved in the recruitment process periodically review their selection criteria to ensure that they are related to the job requirements.

The Policy states that job descriptions are to be aligned with the Policy, and job requirements will be reflected accurately in any personnel specifications. Further, it states the Company adopts a consistent, non-discriminatory approach to the advertising of vacancies. All applicants who apply for jobs with us will receive fair treatment and will be considered solely on their ability to do the job.

Shortlisting and interviewing are carried out by more than one person where possible. Interview questions are related to the requirements of the job and are not of a discriminatory nature. Development programmes and all promotions are in line with this policy. Promotion and development are made on merit and all decisions relating to this are made within the overall framework and principles of this policy.

In 2019, the Company ran a Leadership Programme for mid-level management, focused on developing and strengthening the pipeline of future leaders in the Group. The Nomination Committee is pleased to note that 67% of the participants on this programme were female.

Committee effectiveness review

Following on from the externally facilitated evaluation of the Board and the Committees of the Board 2018, members of the Nomination Committee were of the view that the effectiveness evaluation in 2019 should be conducted internally, and focus on those areas that were identified as requiring further improvement in 2018.

The evaluation of the Nomination Committee principally addressed how effectively the Committee reviews the composition of the Board and the Board Committees, as well as how well it develops and implements succession plans for both the Board and executive management.

The evaluation concluded that the Nomination Committee continues to operate and perform well, with the roles and responsibilities of the Nomination Committee considered to remain appropriate and fully executed over the year.

In respect of the outcomes from the previous evaluation, the Nomination Committee is of the view that the strength of talent, and succession planning arrangements, at Board and senior management-level continued to develop. While the Nomination Committee has had more exposure to talent planning at the level immediately below senior management level in 2019, this will remain an area that the Nomination Committee will continue to priorities in 2020.

Looking ahead to 2020

In the coming year, the Nomination Committee will focus on:

- succession planning below senior management level; and
- long-term Board succession planning, and alignment with the Group strategy process.

I look forward to reporting the progress made by the Nomination Committee in next year's Nomination Committee Report.

Remuneration Report

Remuneration Committee Members

Tim Elsigood

David Morrison

Ingeborg Øie

Promoting remuneration that supports alignment with long-term shareholder interests.

Tim Elsigood
Chair of the Remuneration Committee

Chair's Overview

Dear Shareholders,

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019 on behalf of the Board. Consulting on and implementing the new Directors' Remuneration Policy (the "Policy") has been the Remuneration Committee's priority in 2019.

Shareholder engagement and 2019 AGM result

In early 2019, we sought the views of many of our shareholders through letters introducing the proposed new Policy, followed by phone calls, and also face-to-face meetings with myself and other members of the Remuneration Committee, such meetings taking place both inside and outside the UK. We listened carefully to their feedback before making final decisions.

Shareholders were supportive and we would like to thank them again for their engagement. The new Policy received 91% approval and the Directors' Remuneration Report received 92% approval by our shareholders at the 2019 AGM.

A summary of the Policy is on pages 110 to 114 of this Remuneration Report and the full text of the Policy is available on the website at http://ghg.com.ge/policies.

Remuneration Policy

The Policy focuses on alignment between the Executive Director and our shareholders – in particular most of the salary and all of the performance-based remuneration being paid in deferred shares which vest over several years. We also continue to have no cash bonus and no LTIP.

The revised Policy introduced some new elements, in particular:

- discretionary deferred share compensation is now subject to a two-year post vesting holding period;
- shareholding guidelines with an equivalent of 200% of salary, to be maintained for two years post-employment; and
- enhanced malus and clawback provisions, with prescribed triggers that are consistent with the UK best practice.

As disclosed in last year's Remuneration Report, alongside the full explanation and the Policy, there was an increase in both the cash element of the CEO's salary and in the maximum bonus opportunity during 2019. Share salary remained unchanged at 175,000 shares, cash salary increased to US$ 375,000 and the maximum bonus opportunity increased to 150% of total salary.

This was considered by shareholders at last year's AGM (held on 22 May 2019) in approving the new Policy and Directors' Remuneration Report. Further to such approval, these changes were implemented from 1 June 2019.

The Remuneration Committee does not intend to consider any further increases to the CEO's compensation before the Policy is next due for a renewal.

Addressing the factors in provision 40 of the new Code

The Remuneration considered the requirements of the new UK Corporate Governance Code (the "Code") in determining the Policy and structure, including the factors set out in provision 40 of the Code. Taking each in turn:

- **Clarity:** remuneration arrangements are transparent and competitive. The Remuneration Committee set out the rationale and full Policy last year; this year, in a new initiative, we summarise the Policy in this report so that main features are clear. Further, we have implemented and disclosed a more detailed weighting system for the CEO's KPIs.
- **Simplicity:** the rationale is simple, focusing the CEO and senior management on sustainable, long-term performance of the Company by remunerating mostly in deferred shares.
- **Risk:** by its nature, setting most of the salary and all of the CEO's bonus in deferred shares with a total vesting and holding period of five years, the structure drives the CEO and senior management to mitigate reputational, behavioural and undue strategic risks as the outcome of such would be likely to affect the share price over the years. The new Policy also introduced a minimum shareholding and post-employment shareholding requirements.
- **Predictability:** the range of possible values was set out in the Policy including the impact of share price appreciation and depreciation, even though such disclosure was voluntary, to aid predictability.
- **Proportionality:** outcomes reward performance proportionately by reference to performance targets and weightings, however, to allow appropriate adjustment the entire "bonus" is discretionary. For further considerations on proportionality, see section "CEO pay and comparators" later in this Report.

Pay for performance in 2019

Another important decision for the Remuneration Committee was determination of the discretionary performance-based remuneration (in deferred shares) for our CEO and sole Executive Director, Nikoloz Gamkrelidze, in respect of his performance over 2019. The CEO's KPIs were selected based on alignment to strategy, including key financial metrics; and non-financial metrics which had a particular focus on the Group synergies, but also included ESG matters such as people development and stakeholder effectiveness.

This year, we have added weighting to the bonus targets to make them highly transparent. The Remuneration Committee retains overall discretion, which was exercised to avoid a formulaic outcome and provided a degree of allowance for circumstances that were outside of both the CEO and the Group's control. There is more explanation about the performance metrics and the rationale for the number of deferred shares awarded later in this report.

Mr Gamkrelidze was awarded 85% of maximum opportunity, entirely in deferred shares which vest on a phased basis with a total vesting and holding period of five years. There is no cash bonus. The remuneration operated as intended in terms of performance and quantum.

Pension contributions

In 2019, the Remuneration Committee also reviewed the changes to the pension provision following new Georgian State pension legislation. This implementation has been Group-wide in Georgia; the Group, the employee and the Georgian Government each contribute an amount equivalent up to 2% (up to a ceiling) of the employee's remuneration. The CEO's pension is fully aligned with that of the workforce, with employer contributions equal to up to 2% of remuneration from the Group.

Workforce engagement

We are also mindful of the value of workforce engagement. Employees were able to raise matters relating to the workforce through the designated Non-Executive Director. As Chair of the Remuneration Committee and a member of the Clinical Quality and Safety Committee, I also attended site visits every quarter, as well dinners with managers from across the Group, allowing for further employee engagement directly with myself. Further details of this can be found on page 72.

Approach to workforce remuneration

All five of our businesses (Hospitals, Clinics, Pharmacy and Distribution, Medical Insurance and Diagnostics) have similar remuneration structures for employees, which the Remuneration Committee has reviewed. There is a salary that may be fixed, hourly or for some roles related to performance. Then there are a variety of incentives, including a cash bonus (based on a performance appraisal), or a commission; and benefits which vary between groups. Each business, and the holding company in Georgia, also has share awards for top management (based on a performance appraisal) for which vesting is deferred over several years.

Ahead of implementing the new Policy, the Remuneration Committee reviewed this structure, alongside the new pension provision. It also considered the gender pay gap at 11 different levels of management within Hospitals and Clinics businesses, and noted Human Resources' recommendations on this matter.

The Group regularly monitors staff attitudes regarding remuneration. Partly in response to the employees' feedback, in 2019 it decided to change several factors which were highlighted by respondents to make performance-based remuneration strategy more agile. A new healthcare plan for GHG employees was created in response to an employee survey on healthcare insurance benefits. Several target groups of our employees reported on the need to change some elements of the remuneration system (mostly regarding the variable salary), which Human Resources took into consideration in 2019. The foregoing was presented to and noted by the Remuneration Committee. In 2019, the Group commenced exit interviews, according to which remuneration was shown to be satisfactory.

Other activities in 2019

Other activities of the Remuneration Committee included deciding the number of discretionary deferred shares, which vest over several years, and the smaller cash bonus, to be awarded for senior management in line with their performance in 2019.

The Remuneration Committee has also reviewed and recommended the updated Terms of Reference of the Remuneration Committee, has updated the Executive Incentive Plan and the CEO's service contracts to align them with the new Remuneration Policy.

Tim Elsigood
Chair of the Remuneration Committee
7 April 2020

What is in this report?

This Directors' Remuneration Report describes the implementation of Company's Directors' Remuneration Policy and discloses the amounts earned relating to the year ending 31 December 2019.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The Remuneration Report has been prepared in line with the recommendations of the new UK Corporate Governance Code 2018 and the requirements of the UKLA Listing Rules.

The Directors' Remuneration Policy was approved by shareholders in a binding vote at the 2019 AGM, and took formal effect from the date of approval and will apply until the 2022 AGM, at which time we will be required to submit our Directors' Remuneration Policy for approval by shareholders. A summary of our Directors' Remuneration Policy can be found on pages 110 to 114. The full policy is available on our website at http://ghg.com.ge/policies.

The Annual Report on Remuneration (set out on pages 100 to 114), which includes the Annual Statement by the Chair of the Remuneration Committee, will be subject to an advisory vote at the 2020 AGM.

The Remuneration Committee and its advisers

The Remuneration Committee is principally responsible to the Board for establishing a Remuneration Policy for the Executive Directors, Chair, Non-Executive Directors and designated members of the Executive Management team that rewards fairly and responsibly, and is designed to promote the long-term success of the Group. The Remuneration Committee's full Terms of Reference were reviewed in December 2019 and are available on our website at: http://ghg.com.ge/terms-of-references.

The Remuneration Committee comprise three Independent Non-Executive Directors: Tim Elsigood, David Morrison and Ingeborg Oie.

Remuneration Report continued

The composition of the Remuneration Committee and the members' attendance is shown in the Board and Committee meetings attendance table on page 82.

In addition to the formal meetings held during the year, the Remuneration Committee participated in various discussions by telephone outside of these meetings. Other attendees at the meetings who provided advice or assistance to the Remuneration Committee on remuneration matters from time to time included the CEO, the other Board members, the UK General Counsel and the Group's Legal Director. Attendees at the Remuneration Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Remuneration Committee received advice on compliance from Baker & McKenzie LLP, its legal advisers. The Remuneration Committee continues to remain of the view that the advice received from Baker & McKenzie LLP is objective and independent and that the fees and the basis upon which they are charged remain commensurate.

To aid in formulating the new Policy, the Company engaged a specialised remuneration consultant, Willis Towers Watson ("WTW"), to conduct an independent review of the Company's previous Remuneration Policy. The findings of this review were subsequently presented to the Remuneration Committee and have been used as a basis for the ongoing shareholder engagement in respect of the new Policy. WTW are independent advisers appointed following a competitive tender process who have no other relationship with the Company. WTW's fees are typically charged on an hourly basis with estimates for work agreed in advance. During 2019, WTW was paid £42,500 for this work for the Remuneration Committee (this includes the £29,000 reported as charged in the previous Annual Report).

Shareholder context and Remuneration Policy and report

Our existing Directors' Remuneration Policy (the "2019 Policy") was most recently approved by shareholders at our AGM on 22 May 2019. The Directors' Remuneration Policy received the following votes from shareholders at the 2019 AGM.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Policy	111,045,689	90.70	11,379,602	9.30	122,425,291	190,911

Set out below are the shareholder voting figures for the Directors' Remuneration Report (including the Annual Statement of the Chair of the Remuneration Committee) presented at our 2019 AGM.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Report	112,670,870	91.91	9,917,421	8.09	122,588,291	27,911

Single total figure of remuneration for the Executive Director (audited)

The table below sets out the remuneration earned by the Company's sole Executive Director, Nikoloz Gamkrelidze, in respect of his employment with the Group for the years ended 31 December 2019 and 31 December 2018. For 2019, 81% of Mr Gamkrelidze's compensation as set out in the table below is in the form of deferred shares that vest in tranches. Almost all the increase in total compensation is explained by two factors: (i) $107,612 of the increase was attributable to the higher salary, which was approved by shareholders as part of the new Remuneration Policy; and (ii) $542,008 reflects an increase in discretionary compensation, in both the maximum award available (also approved as part of the new Remuneration Policy) and the higher percentage awarded based on 2019 performance, as discussed below. The increase in salary and the increase in the maximum award available has only taken effect for the portion of the year after the 2019 AGM (held 22 May 2019, with effect from 1 June 2019).

Year ending	Cash salary (US$)[1]	Deferred share salary (US$)[2]	Total salary (US$)	Discretionary deferred share compensation (US$)[3]	Taxable benefits (US$)[4]	Pension benefits (US$)[5]	Total (US$)
2019	**312,500**	**472,134**	**784,634**	**880,519**	**8,934**	**4,900**	**1,678,987**
2018	225,000	452,022	677,022	338,511	7,360	1,495	1,024,388

Notes:

1 Cash salary is expressed in US dollars but paid in GBP and Lari as applicable, converted into the respective currency. Accordingly, there may be variations in the numbers above and those provided in the accounts. Under Mr Gamkrelidze's previous contract (for the whole of 2018 and to 31 May 2019) cash salary was US$225,000 per annum. From 1 June 2019 under the new contract amended in accordance with new Remuneration Policy, cash salary is US$375,00 per annum.

2 Deferred share salary. The figures show the value of GHG shares underlying nil-cost options granted under the Executive Director's service contract with JSC GHG in respect of service in the relevant year. For 2019, there were two relevant contracts, Mr Gamkrelidze's previous contract which expired at the end of May 2019 and his new service agreement which came into effect on 1 June 2019. Under both contracts Mr Gamkrelidze's annual deferred share salary was 175,000 shares. For 2019, the value of the deferred share salary payable is calculated as follows: (a) from 1 January 2019 to 31 May 2019 (when the prior service agreement was in effect), the share price is calculated by reference to the share price as of 12 November 2015, the date of admission to listing, which was US$2.58298 (based on the official share price of GBP 1.7 per share converted into US dollars using an exchange rate of US$1.5194, being the official exchange rate published by the Bank of England on the same date); and (b) from 1 June 2019 to 31 December 2019 (when the new service agreement was in effect), the share price used is at 14 December 2018, being the date on which the Remuneration Committee adopted the terms of the new agreement, which was US$2.78 (based on the official share price of GBP 2.20 per share converted into US dollars using an exchange rate of US$1.2616, being the official exchange rate published by the Bank of England on the previous date, i.e. 13 December 2018). For 2018, Mr Gamkrelidze was awarded 175,000 deferred share salary shares. For 2018, the value of the deferred share salary is calculated by reference to the share price as of 12 November 2015, the date of admission to listing, which was US$2.58298 (based on the official share price of GBP 1.7 per share converted into US dollars using an exchange rate of US$1.5194, being the official exchange rate published by the Bank of England on the same date).

3 Discretionary deferred share compensation. The figure shows the value of GHG shares underlying nil-cost options granted in respect of service in the relevant year. The discretionary deferred share compensation award for the work year 2019 is capped as follows: (a) 100% of total salary under the previous contract (1 January 2019 till 31 May 2019); and 150% of total salary under the new contract (1 June 2019 to 31 December 2019). For 2019, options were awarded over 543,195 GHG shares. The value of the discretionary deferred share compensation is calculated by reference to the share price on 31 January 2020 which was US$1.6210 (based on the official share price of GBP 1.23 per share converted into US dollars using an exchange rate of 1.3179, being the official exchange rate published by the Bank of England on the same day). For the work year 2018, the discretionary deferred share compensation award is capped at 100% of total salary. In 2018, options were awarded over 111,301 GHG shares. The value of the discretionary deferred share compensation is calculated by reference to the share price on 8 February 2019, which was US$ 3.0414 (based on the official share price of GBP 2.35 per share converted into US dollars using an exchange rate of US$ 1.2942, being the official exchange rate published by the Bank of England on the same day). Discretionary deferred shares awarded in 2019 are subject to three-year straight-line vesting beginning in January 2021 and a two-year holding period, and are subject to the leaver provisions described in the 2019 Policy. The means of determining the number of shares underlying this compensation and the terms and conditions are described in the 2019 Policy. The basis for determining Mr Gamkrelidze's 2019 discretionary award is described on pages 103 to 104.

4 Benefits. The figure shows the gross taxable value of health and disability insurance and tax equalisation payments.

5 Pension. The figure shows the aggregate employer contributions for the relevant years into the pension scheme.

6 Mr Gamkrelidze was reimbursed for reasonable business expenses, on provision of valid receipts.

7 No money or other assets are received or receivable by Mr Gamkrelidze in respect of a period of more than one financial year.

8 The number of shares awarded pursuant to the deferred share salary and discretionary deferred share compensation is fixed on grant. No discretion has been exercised as a result of share price appreciation or depreciation. Discretionary deferred shares are subject to one-year targets. No amounts were recovered or withheld in 2019.

The following table sets out details of total remuneration for the Chief Executive Officer, Mr Gamkrelidze, for the year ended 31 December 2019 and his discretionary compensation as a percentage of maximum opportunity.

	2015	2016	2017	2018	**2019**
Single total figure of remuneration (US$)	1,205,387	1,330,797	1,297,055	1,024,388	**1,678,987**
Discretionary compensation as a percentage of maximum opportunity (%)	100	95	85	50	**85**

Basis for determining Mr Gamkrelidze's discretionary deferred share compensation for 2019

The number of discretionary deferred shares granted to Mr Gamkrelidze in a given year is dependent on both the Group's performance and his achievements of the KPIs set for him by the Remuneration Committee, whilst remaining in the Remuneration Committee's discretion.

The following table details the KPIs set for Mr Gamkrelidze in respect of 2019, their targets, weighting, and percentage allocated, as well as his performance against these. The performance measures set for the year under review were a combination of financial-based metrics (worth 50% of the bonus potential) and non-financial targets (worth 50% of the bonus potential). Achieving target results in 70% of maximum award for that target, with 100% awarded for achieving stretch target; this figure can be seen in the last column of the table (Reward achieved). Targets are excluding the effects of IFRS 16.

Financial KPIs and targets

Performance measure	Weighting % of financial KPIs	Target	Result	Reward achieved
Group Revenue	15%	GEL 967m	963m	70%
EBITDA	25%	GEL 155m	154.2m	70%
ROIC	20%	12.30%	12.38%	70%
Net cash flows from operating activities	20%	GEL 126m	125m	70%
Pre-tax profit adjusted for FX	20%	GEL 74.5m	74.5m	70%
Total awarded:				**70%**

Non-financial KPIs and targets

Performance measure	Weighting % of non-financial KPIs	Target range	Result	Reward achieved
HOSPITALS	25%			87%
Improvement in care quality		Clinical quality change programme in early test mode in 1-2 areas	four clinical boards launched and running; improvement of clinical KPIs 60% achieved	
Medical Tourism		In alignment with strategy with generally good results; target revenue GEL 5m	Exceeding plan, high patient satisfaction and follow-up at home; GEL 5m achieved	
Network management set-up		Improve management capacity in four large hospitals	Improved management capacity in five large hospitals	
POLYCLINICS	15%			33%
Continued expansion of customer base		250,000 registered customers in Tbilisi	200,000 registered customers in Tbilisi	
Care quality improvements		Cardiovascular disease and diabetes screening, treatment and follow-up improvement programme implementation	Not met to full extent targeted but some progress has been made and will continue in 2020	
Customer service improvements		Queue killer programme working well in several initial sites within targets	Effective queue killer programme was rolled out	
PHARMACY AND DISTRIBUTION	25%			100%
Same-store profit growth		5-6% growth	9%	
Expansion of store network		15 new stores in Georgia, three in Armenia; wholesale growth ex Evex 8%	22 in Georgia, four in Armenia; growth 14%	
MEGA LAB	15%			100%
Launch and development of internal and external volume		Internal fully centralised as per model; 15 blood collection points	Target met on internal centralisation; 70% met on new blood collection points	
MEDICAL INSURANCE	5%			87%
Profitable business growth		Number of insured towards 250,000	240,000 achieved	
Combined ratio		95-96%	94% – exceeded target	

Remuneration Report continued

Performance measure	Weighting % of non-financial KPIs	Target range	Result	Reward achieved
CROSS GROUP OPPORTUNITIES	15%			87%
People development (including personal development)		70% of senior executives have personal development plans and are working on them; 50% of senior executives engaged in the succession planning programme	70%+ target met; succession planning target exceeded, with 100% engaged	
Digital platform capabilities for customer attraction and retention		EKIMO implemented on time and meeting early forecasts	Digital plan changed, as a result this target was withdrawn	
Digital platform – Operational performance		100,000 downloads and 20,000 transactions	Digital plan changed, as a result this target was withdrawn	
Stakeholder effectiveness		Effective communication with key stakeholders as identified in the Stakeholder Engagement section of this Report	Appropriate engagement, whilst noting these are ongoing relationships	
Revenue synergies among the business units		Enhanced revenue synergies within the Group	Exceeded internal targets on all businesses except Mega Lab retail	
TOTAL AWARDED:				**82%**

The Remuneration Committee considered Nikoloz Gamkrelidze's performance against the KPIs. This year, to aid transparency, the Remuneration Committee referred to detailed KPIs and targets with individual weightings.

The financial performance was strong, with all KPIs hitting around the target mark. A significant number of the non-financial KPIs hit or exceeded the targets and the stretch targets. The financial and non-financial targets are each allocated 50% of the bonus. Therefore, an average of 82% plus 70% would result in an overall percentage of 76%. The Remuneration Committee noted that there had been a number of negative impacts outside of the Group's control (Government regulations changes in pricing of some services, appeal by a competitor over insurance contract award, the extension of Government payments to large providers at the end of the year) that had contributed to a few areas which caused financial performance to be "only" on target rather than reaching stretch levels; whereas there had not been any unexpected positives outside of the Company's control. Therefore, in their discretion the Remuneration Committee decided to award 85% of the maximum opportunity, recognising the very strong performance against financials, quality improvement and other KPIs. In addition, the Remuneration Committee noted the significant organisational change that had taken place during the year, resulting in a stable platform for the future.

Further details of fixed and discretionary deferred share compensation granted during 2019 (audited)

The following table sets out details of the nil-cost options over GHG shares which have been granted to Mr Gamkrelidze in 2019 in respect of the year ended 31 December 2018 and for deferred share salary for the 2019 work year. The below table for this year has two salary awards granted in a year (January 2019 and December 2019) due to a change in grant date of the award between the new and old remuneration policies.

	Deferred share salary (2018 and 2019 work years)	Discretionary deferred share compensation (2018 work year)
Number of underlying shares and basis on which award was made	(1) 175,000 for 2018 work year, granted on the basis described in the table in section 4.2 and section 4.2(a) of the 2016 Policy available at http://ghg.com.ge/annual-reports. (2) 175,000 for 2019 work year, granted on the basis described in the 2019 Policy available at http://ghg.com.ge/policies.	111,301 granted on the basis described in the table in section 4.2 and section 4.2(b) of the 2016 Policy available at http://ghg.com.ge/annual-reports.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group	(1) US$202,699[1]; (2) US$202,699[1]	US$338,511[3]
Face value	(1) US$452,022[2]; (2) US$472,134[2]	US$338,511[3]
	Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).	Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).

	Deferred share salary (2018 and 2019 work years)	Discretionary deferred share compensation (2018 work year)
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of an Executive Director's salary set out in the service contract and accordingly is not subject to performance measures or targets over the vesting period. (For the salary award granted before a work year is complete, the award was subject to pro rata lapse until the year was complete.)	100% of the award will be receivable, since the award is based on 2018 performance (and this is not a LTIP award), and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.
Vesting period	(1) 20% in each of 2020, 2021 and 2022 and 40% in 2023. (2) 25% in each of 2021, 2022, 2023 and 2024.	33% in each of 2020, 2021 and 2022.
Performance measures	None. See section 4.2(a) of the 2016 Policy available at http://ghg.com.ge/annual-reports and the 2019 Policy available at http://ghg.com.ge/policies.	See section 3.2 above and section 4.2(b) of the 2016 Policy available at http://ghg.com.ge/annual-reports.

Notes:
1 Cost to the Group is calculated using the value of US$1.16 per GHG share based on the EY valuation report dated 1 April 2015. For face value, the value attached to each GHG share is the share price as of 12 November 2015, the date of admission to listing, as described in Note 2 to the table in section 3.1 of the 2016 Annual Report available at http://ghg.com.ge/annual-reports.
2 For information explaining how these figures have been calculated, please see Note 2 to the table of single total figure of remuneration for the Executive Director on page 102 of this Report.
3 For information explaining how these figures have been calculated, please see Note 3 to the table of single total figure of remuneration for the Executive Director on page 102 of this Report.

Percentage change in the remuneration of the Chief Executive Officer

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2018 and 2019, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2018 and 2019. See Director's remuneration section for an explanation of these elements of the compensation of Mr Gamkrelidze.

	Percentage change for the CEO between 2018 and 2019	Average percentage change for the Group's employees as a whole (excluding the CEO) between 2018 and 2019
Total cash salary	38.9%	13.6%
Total deferred share salary	4.4%	9.5%
Taxable benefits	21.4%	12.8%
Total bonus (discretionary deferred share compensation, in the case of Mr Gamkrelidze, and deferred discretionary share compensation plus cash bonus, in the case of other employees of the Group)	160.1%	5.3%

CEO pay ratios

It is noted that the Group has less than 250 UK employees and therefore is not required to disclose ratios of the CEO pay against the UK pay (and indeed given it has less than 20 UK employees, to do so would be distortionary).

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the remuneration received by each Non-Executive Director for the year ended 31 December 2019.

	GHG PLC fees (US$) 2019	JSC GHG fees (US$) 2019	Total fees (US$) 2019	Total fees (US$) 2018
Irakli Gilauri	–	–	–	–
Bill Huyett	100,000	100,000	200,000	119,988
David Morrison	83,500	72,500	156,000	156,000
Ingeborg Oie	70,500	55,500	126,000	120,954
Mike Anderson	59,000	48,000	107,000	107,000
Tim Elsigood	77,500	66,500	144,000	136,071
Jacques Richier	59,000	48,000	107,000	107,000
Fabian Blank	55,500	44,500	100,000	60,677
Total	**505,000**	**435,000**	**940,000**	**807,690**

Notes:
1. Bill Huyett was appointed as Chairman of the Board on 20 September 2018. Irakli Gilauri stood down as Chairman of the Board on 20 September 2018, and as a member of the Nomination Committee on 8 December 2019.
2. Fabian Blank was appointed as a member of the Board, the Nomination Committee and the Clinical Quality and Safety Committee on 20 September 2018.
3. On 20 September 2018, further changes to the Committees were made: (i) Bill Huyett and Tim Elsigood were appointed to the Nomination Committee; (ii) Ingeborg Oie was appointed to the Audit Committee and stepped down from the Clinical Quality and Safety Committee; and (iii) Irakli Gilauri stepped down from the Remuneration Committee.

Remuneration Report continued

In accordance with the Articles of Association of GHG PLC, fees for Non-Executive Directors from GHG PLC (as distinct from any salary, remuneration or other amount payable to a Director, pursuant to other provisions of the Articles of Association or otherwise, or by JSC GHG) may not exceed GBP 750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of GHG PLC.

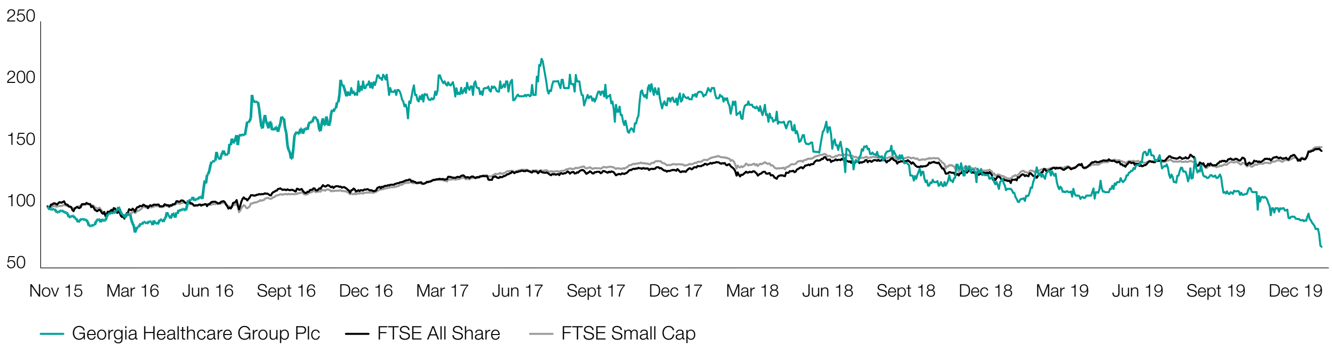
Payments to former Directors or payments for loss of office

No payments were made to former Directors and no payments were made in respect of loss of office during the year ended 31 December 2019.

Total shareholder return

Georgia Healthcare Group PLC TSR

The following graph compares the "TSR" of the Company with the companies comprising the FTSE All Share Index and FTSE Small Cap index, for the period since the Company's listing on the premium segment of the London Stock Exchange on 12 November 2015 until 31 December 2019. These comparators have been chosen on the basis that they are the markets within which GHG PLC operates.



Relative importance of spend on pay

The following table shows the difference in remuneration paid to all employees of the Group between 2018 and 2019, as well as the difference in value of distribution paid to shareholders by way of dividends between 2018 and 2019.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends
Year ended 31 December 2018 (US$) (dividend for 2017)	70,966,525	0
Year ended 31 December 2019 (US$) (dividend for 2018)	72,124,351	2,424,242
Percentage change	1.6%	100%

Note: The Company did not make any other significant distributions in 2019.

Directors' interests in shares (audited)

	As at 31 December 2018				**As at 31 December 2019**			
	Number of GHG shares held directly	Number of vested but unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in GHG shares	**Number of GHG shares held directly**	**Number of vested but unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)**	**Number of unvested and unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions**	**Total number of interests in GHG shares**
Nikoloz Gamkrelidze[1,2]	392,972	–	716,720	1,109,692	**370,293**	**–**	**905,562**	**1,275,855**
Irakli Gilauri	411,700	–	–	411,700	**231,566**	**–**	**–**	**231,566**
David Morrison	116,600	–	–	116,600	**65,583**	**–**	**–**	**65,583**
Ingeborg Oie	46,677	–	–	46,677	**46,677**	**–**	**–**	**46,677**
Mike Anderson	11,500	–	–	11,500	**11,500**	**–**	**–**	**11,500**
Tim Elsigood	14,700	–	–	14,700	**14,700**	**–**	**–**	**14,700**
Jacques Richier	–	–	–	–	**–**	**–**	**–**	**–**
Bill Huyett	10,000	–	–	10,000	**60,000**	**–**	**–**	**60,000**
Fabian Blank	10,000	–	–	10,000	**15,000**	**–**	**–**	**15,000**

Notes to Directors' interests in shares table:
1 In 2019, Mr Gamkrelidze received awards of 175,000 salary deferred shares and 111,301 discretionary deferred shares for the 2018 work year; and 175,000 salary deferred shares for the 2019 work year. In June 2019, Mr Gamkrelidze exercised options in respect of 272,459 GHG shares, of which 54,492 were withheld to satisfy tax liabilities. The net gain of these options was US$722,779.
2 In 2020, Mr Gamkrelidze received awards of 175,000 deferred salary shares for the 2020 work year in accordance with the new Policy. This will be reported in the 2020 Annual Report, and is not included in the table above, which is at 31 December 2019.

As at 7 April 2020, Mr Gamkrelidze's vested and unvested shareholding is 1,450,855 GHG shares, representing approximately 1% of the share capital of GHG. None of Mr Gamkrelidze's connected persons have any interests in the shares of the Company.

The Remuneration Policy is heavily weighted towards remuneration in deferred salary shares and discretionary compensation in deferred shares. The long vesting periods, particularly for deferred salary shares, naturally leads to Executive Directors and eligible members of the Executive Management team building up large holdings of unvested shares under its current Policy. The Policy naturally results in Mr Gamkrelidze and our Executive Management team holding a significant number of unvested shares and achieves a delay between performance and vesting. We believe these results are consistent with the principles of the Investment Association and to further strengthen this, the 2019 Policy introduced formal guidelines on shareholding and on post-employment shareholding. Under the new Policy, an Executive Director is required to build within a five-year period and then maintain a shareholding with a 200% equivalent of total salary (in vested shares and unvested shares net of tax). As at 31 December 2019, Mr Gamkrelidze met the shareholding requirement.

Under the Directors' Remuneration Policy, the Group does not require Non-Executive Directors to hold a specified number of shares in GHG. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders. There have been no changes in the current Directors', except for Mr Gamkrelidze, interests in shares in the Company between the end of the financial year and 7 April 2020. The Chair and Non-Executive Directors are not awarded incentive shares and are not subject to a shareholding requirement.

Details of Non-Executive Directors' letters of appointment

The Company has entered into letters of appointment with each Non-Executive Director. The letters of appointment require Non-Executive Directors to provide one month's notice prior to termination. The letters of appointment for the majority of current Non-Executive Directors are effective from 4 September 2015, with Bill Huyett's and Fabian Blank's letter of appointment being effective from 18 June 2017 and 20 September 2018, respectively. Each Non-Executive Director is put forward for election at each AGM following his or her appointment. Continuation of a Non-Executive Director's employment is conditional on his or her continued satisfactory performance and re-election by shareholders at each AGM.

A succession plan adopted by the Board provides for a tenure of six years on both the GHG and JSC GHG Boards. Upon the expiry of such six-year tenure, the appointment of the relevant Non-Executive Director will generally cease at the next upcoming AGM.

Notwithstanding the foregoing, if the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Non-Executive Director on the Board beyond the relevant six-year period, the Board may offer the Non-Executive Director a letter of appointment for an additional one-year term. Such a one-year "re-appointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

Consideration of employment conditions elsewhere in the Group

The Remuneration Committee does not formally consult employees when drawing up the Directors' Remuneration Policy but in determining an Executive Director's remuneration, the Remuneration Committee considers:

i. the pay and employment conditions of the senior management, including Executive Management;
ii. any changes in pay and employment conditions across the Group as a whole;
iii. whether employees across the Group are personally satisfied with the way they are remunerated; and
iv. any feedback received during the year from Human Resources department, Executive Management and other employees on the executive remuneration structure.

When developing the Policy, the Remuneration Committee reviewed equivalent elements of pay in the workforce. The Remuneration Committee benchmarks remuneration at all levels within the Group in order to ensure that our remuneration is competitive in order to attract the right candidates and remain competitive in order to motivate, satisfy and retain our talent. We regularly monitor staff attitudes regarding remuneration.

Please also see the Chair's letter on pages 100 and 101 of this report in respect of the employee survey and other feedback, and action taken in 2019.

Shareholding of executive management

The following table sets out the respective GHG shares held by the top members of our Executive Management Team as at 31 December 2018 and 2019.

	As at 31 December 2018			**As at 31 December 2019**		
	Number of GHG shares held directly	Number of unvested GHG shares	Total vested and unvested GHG shares	**Number of GHG shares held directly**	**Number of unvested GHG shares**	**Total vested and unvested GHG shares**
Irakli Gogia	73,363	226,612	299,975	**73,584**	**257,482**	**331,066**
Giorgi Mindiashvili	0	216,619	216,619	**19,745**	**239,375**	**259,120**
Enrico Beridze[1]	1,065,044	29,182	1,094,226	**808,625**	**109,455**	**927,807**

Note:
1 Enrico Beridze also held 9,727 vested unexercised shares as at 31 December 2019, which are not included in the above table.

Remuneration Report continued

Irakli Gogia and Giorgi Mindiashvili receive a modest cash salary, deferred salary shares that vest over five years and the potential to earn discretionary deferred shares that vest over a four-year period. The figures in the table on page 107 reflect deferred share salary and discretionary deferred shares granted in 2018 and in 2019. Like Mr Gamkrelidze, the Executive Management team is focused on long-term value creation.

Remuneration Committee effectiveness review

The Remuneration Committee carried out an internal review in 2019. It scored highly on the main areas of composition, process and support, and the work of the Remuneration Committee over the year. In respect of potential areas for improvement, the Remuneration Committee wished to have an update on the wider market view on remuneration. The UK General Counsel updated them as requested in December 2019, including benchmarking aspects of the Company's approach against that of the wider marker. The Remuneration Committee remained satisfied the remuneration structure and packages remained appropriate for the Group, while noting wider market views.

Statement of implementation

There will be no significant changes in the way that the Remuneration Policy will be implemented in the next financial year compared with how it was implemented in this financial year post the 2019 AGM.

Details of how the Remuneration Policy will be implemented for the 2020 financial year are set out below.

a) For Nikoloz Gamkrelidze

Policy element	Commentary	Implementation of the Remuneration Policy during 2020
Cash salary	Combined GHG, JSC GHG and JSC Evex	US$375,000
Deferred share salary	JSC GHG	US$486,500
Pension	The Executive Director and the Company each contribute 2% of JSC GHG remuneration, and the Georgian Government between 0-2% of an Executive Director's pay.	In line with Georgian pension legislation in effect since 1 January 2019.
Benefits	Details of benefits received by the Executive Director are on page 112.	No change to current arrangement is proposed in 2020.
Discretionary deferred	Maximum 150% of total salary (including cash salary and deferred share salary). Awarded annually after the end of the work year in respect of which the award is made over a number of GHG shares to be determined by the Remuneration Committee, based on the performance of the Group and the achievement of the KPIs set for the Executive Director by the Remuneration Committee for the work year. Awards vest 33.33% in each of the second, third and fourth years following the work year. Vested deferred shares must then be held for a further two years. At vesting (upon exercise of the nil-cost options), the Executive Director receives (in addition to the vested shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.	No change to current arrangement is proposed in 2020, although noted that 2019 was part year with this maximum, part year with the previous maximum. Two-year holding period for vested shares.

Performance measures The Remuneration Committee has set the 2020 KPIs for the CEO which reflect the Group's strategy. While the below KPIs constitute current strategy and are achievable on a business as normal basis, the current situation gives us a reason to believe that we may need to adjust KPIs and/or targets in order to take into account the impact of Coronavirus. Our priority will be to safeguard the long-term success of the business alongside supporting our patients, customers, employees and the wider Georgian public. Accordingly, while performance expectations will in any event remain high, KPIs may also be adjusted to correspond with appropriate priorities and developments.

FINANCIAL

- Group revenue
- EBITDA
- ROIC
- Operating cash flow
- Net income

CROSS GROUP OPPORTUNITIES

- Asset and network optimisation
- People development (including personal development)
- Digital platform capabilities for customer attraction and retention and operational performance
- Stakeholder effectiveness
- Revenue synergies between business units

NON-FINANCIAL

Hospitals

- Improvements in care quality
- Strategic projects
- ROIC improvement

Polyclinics

- Care quality improvements

Pharmacy and Distribution

- Same store profit growth
- Expansion of store network
- Strategic projects
- Centralised store project

Mega Lab

- Progress towards JCI accreditation
- Volume development

Medical Insurance

- Combined ratio

Due to the potential impact on our commercial interests, the targets are sensitive and appropriate detail will be disclosed in the 2020 Remuneration Report following the completion of the financial year. KPIs and targets will be reviewed and may be revised by the Remuneration Committee throughout the year and by the Board as appropriate, subject to the terms of the Policy, in particular given the impact of, and appropriate response to and adjustments arising from, circumstances resulting from the Coronavirus, as above.

There are circumstances in which unvested compensation may lapse and narrow circumstances in which it may vest immediately, and other malus and clawback provisions, all as set out in the Policy available on our website at: http://ghg.com.ge/policies.

b) Non-Executive Directors' remuneration

The table below shows the fee structure for Non-Executive Directors for 2020. Non-Executive Directors' fees are determined by the Board.

Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee	The fee for the GHG Board is competitive enough to attract and retain individuals. The Chair receives a fee which reflects the extra time commitment and responsibility. The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility.	Cash payment on a quarterly basis.	The amount of remuneration may be reviewed from time to time by the Board. The fees may be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The maximum aggregate GHG PLC fees for all Non-Executive Directors which may be paid by the Company shall be GBP 750,000, which is consistent with the current cap in GHG PLC's Articles of Association.
Cash fee for each Committee membership	Additional fee to compensate for additional time spent discharging committee duties.	Cash payment on a quarterly basis.	The amount of remuneration for committee membership may be reviewed from time to time by the Board. The Chair does not receive committee fees.

Remuneration Report continued

Directors' Remuneration Policy

The Remuneration Policy was approved at the AGM on 22 May 2019 and took effect from that date. It is intended that approval of the Remuneration Policy will be sought at three-year intervals, unless amendments to the Policy are required, in which case further shareholder approval will be sought; no changes are proposed for 2020. The full Policy is available on our website at: http://ghg.com.ge/policies.

The tables in this section provide a summary of the Directors' Remuneration Policy.

Remuneration Policy table for Executive Directors

Component	Purpose and link to strategy	Operation	Opportunity	Performance measures
Cash salary	Cash salary is set at a competitive level that comfortably covers reasonable living expenses.	The level of cash salary for an Executive Director is fixed in his or her service agreement(s). The level of salary is reviewed by the Remuneration Committee on earlier of a service agreement or this Policy being up for renewal.	The level of cash salary the CEO is fixed for the duration of the employment contract with GHG and JSC GHG. The total amount payable to the current CEO, Mr Gamkrelidze, is US$ 375,000 per annum.	N/A
Deferred share salary	To closely align the Executive Directors' and shareholders' interests, to promote long-term value creation and share price growth, and to encourage long-term commitment to the Group.	Deferred share salary is awarded in the form of nil-cost options annually in respect of the work year and vest over a five-year period from the start of the year in which the salary is earned as follows: 25% will vest on each of the second, third, fourth and fifth anniversary of the start of the work year. At vesting, an Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. Lapse provisions (natural malus) are extended clawback and malus applies under the circumstances as set out in the notes to the Policy.	The total number of deferred share salary shares is fixed at 175,000 per annum. The Remuneration Committee has the discretion to change the split of total salary between the cash salary and the deferred share salary.	N/A

Component	Purpose and link to strategy	Operation	Opportunity	Performance measures
Discretionary deferred shares	In the context of overall Group performance, to motivate and reward an Executive Director in relation to his or her contribution to the achievement of the KPIs set for him or her by the Remuneration Committee towards the beginning of the year. Performance-based remuneration is solely in the form of deferred shares (no cash), designed to closely align the interests of an Executive Director with shareholders, avoid inappropriate risk-taking for short-term gain and encourage long-term commitment to the Group.	The Remuneration Committee will determine annually the number of shares to be awarded based on the Executive Director's achievement of his/her KPIs set for the work year, and the performance of the Group during that work year. Performance-based remuneration is awarded annually entirely in the form of nil-cost options over GHG shares subject to vesting. There is no contractual right to discretionary deferred shares and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory. Discretionary deferred shares will vest 33.33% in each of the second, third and fourth years, following the end of the work year. Vested discretionary deferred shares must then be held for a further two years. At vesting, an Executive Director receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. Lapse provisions (natural malus) and extended clawback and malus applies under the circumstances as set out in the notes to the Policy table.	The maximum number of discretionary deferred shares that may be awarded in respect of the previous work year is capped at 150% of total salary (i.e. cash and deferred share salary).	KPIs for the Executive Director are set towards the start of each work year and reflect the Executive Director's targeted contribution to the Group's overall key strategic and financial objectives for the coming year. KPIs may also include non-tangible factors such as self-development, mentoring and social responsibility. If appropriate, where a strategic change or change in business circumstances has made one or more of the KPIs an inaccurate gauge of the Executive Director's performance, the Remuneration Committee may decide to base its assessment on alternative measures.
Pension	The Group complies with pension requirements set by the Georgian Government.	Pension provision will be in line with Georgian pension legislation, which may change from time to time. There is no provision for the recovery or withholding of pension payments. The same arrangement applies to employees across the Group in Georgia.	In line with current Georgian legislation, the Executive Director and the Group each contribute 2% of JSC GHG remuneration, and the Georgian Government may contribute a further small amount (0-2% depending on income levels). Pension contributions will only increase above this level if mandated by Georgian legislation or any other applicable legislation including in other jurisdictions.	N/A

Remuneration Report continued

Component	Purpose and link to strategy	Operation	Opportunity	Performance measures
Benefits	Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	Benefits consist of: life insurance; health insurance; incapacity/disability insurance; Directors' and Officers' liability insurance; tax gross-ups; physical examinations; company car and driver; mobile phone costs; personal security arrangements (if requested by the Executive Director); assistance with completing tax returns (where required); relocation costs for Executive Director and close family, and legal costs. Other benefits may be provided from time to time if considered reasonable and appropriate.	There is no prescribed maximum on the value of benefits payable to an Executive Director. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Executive Director is based.	N/A
Shareholding guidelines	To ensure Executive Directors build and hold a significant shareholding in the Group over the long-term and to further align Executive Directors' interests with those of shareholders. To ensure departing Executive Directors make long-term decisions and maintain an interest in the ongoing success of the Group, post-employment.	Executive Directors are required to build and then maintain a shareholding with a 200% equivalent of total salary (i.e. cash and deferred share salary), such amount to be built up.	All beneficially owned shares, as well as unvested (net of tax) and vested deferred share salary, and discretionary deferred shares count towards the Required Shareholding (as such awards are not subject to any performance conditions after grant). Executive Directors are to retain the lower of the required shareholding or the Executive Director's actual shareholding at the time employment ceases, for a period of two years from the date on which employment ceases unless the Remuneration Committee determines otherwise. In very exceptional circumstances, for example in the event of a serious conflict of interest, the Remuneration Committee has the discretion to vary or waive the required shareholding, but must explain any exercise of its discretion in the Group's next Remuneration Report. It should be emphasised that there is no present intention to use this discretion.	

Clawback and malus

Discretionary deferred shares remuneration is subject to malus and clawback for up to two years from vesting, in the following circumstances:

- significant financial losses, serious failure of risk management or serious damage to the reputation of the Company or JSC Georgia Healthcare caused by misconduct or gross negligence (including inaction);
- material misstatement or material errors in the Financial Statements that relates to the area of responsibility of the executive or can be attributed to action or inaction of the executive's performance of duties;
- deliberately misleading the Company or JSC Georgia Healthcare;
- misconduct in the performance of or failure to perform duties; and
- payments based on erroneous or misleading data, for which malus and clawback of discretionary deferred remuneration apply to discretionary deferred remuneration awarded for the year in question.

Discretion

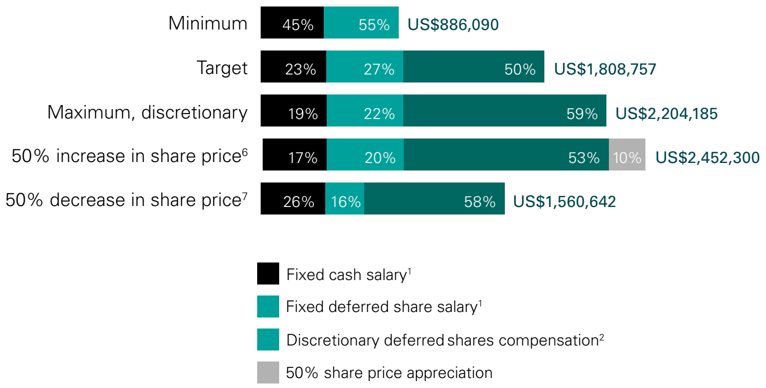
The Remuneration Committee retains certain discretion in relation to this Policy. This includes:

- the determination of discretionary deferred remuneration award, if any;
- selection of KPIs that will determine the discretionary deferred remuneration, which may vary from year to year in order to align with strategy and financial objectives;
- any adjustments required to an Executive Director's KPIs during the work year when, for example, there has been a change in strategy or business circumstances which results in one or more of KPIs becoming an inaccurate gauge of performance; and
- the discretion to override formulaic outcomes where it considers it reasonable in the circumstances to do so prior to, or upon vesting of, discretionary deferred shares.

Illustration of GHG's Remuneration Policy

The chart below shows the remuneration which Mr Gamkrelidze, the sole Executive Director, could receive under the proposed Policy at three different performance levels. The below illustration is extracted from the 2019 Policy.

The 50% share price appreciation disclosure is made voluntarily by the Group (as performance measures are limited to one year) for investor information.



1 Salary comprises cash, deferred share salary, benefits and pension contributions. Mr Gamkrelidze's total cash salary in 2020 in respect of both his service contract with GHG and JSC GHG will be US$375,000. Deferred share salary will be 175,000 nil-cost options. The value attached to each GHG share is calculated by reference to the share price on 14 December 2018, being the date on which the Remuneration Committee adopted, subject to shareholder feedback and approval, the terms of the new compensation and bonus structure reflected in this Policy, which was US$2.78 (based on the official share price of GBP 2.20 per share converted into US dollars using an exchange rate of US$1.2616, being the official exchange rate published by the Bank of England on the previous date i.e. 13 December 2018). Deferred share salary in respect of 2020 will be formally granted in January 2020 and will vest from January 2022 to January 2025.

2 The discretionary deferred share maximum opportunity is a fixed dollar amount – see notes to the Policy table above.

3 Minimum opportunity reflects a scenario whereby Mr Gamkrelidze receives only fixed remuneration comprised of cash salary, deferred share salary (calculated as described above), pension contributions and benefits. No share price growth assumptions have been made.

4 On-target opportunity reflects a scenario whereby Mr Gamkrelidze receives fixed remuneration (as described in 3 above) and discretionary deferred shares (calculated as described above), being 70% of the maximum opportunity. No share price growth assumptions have been made.

5 Maximum opportunity reflects a scenario whereby Mr Gamkrelidze receives fixed remuneration (as described in 3 above) and discretionary deferred shares (calculated as described above) being 150% of the maximum opportunity. No share price growth assumptions have been made.

6 Voluntary disclosure of maximum opportunity plus 50% share price growth whereby Mr Gamkrelidze receives fixed remuneration (as described in 3 above) and discretionary deferred shares (calculated as described in 5 above) at 100% of the maximum opportunity. Share price grows by 50% is only in relation to deferred salary shares because the maximum discretionary deferred share opportunity is fixed to a dollar amount, which is then awarded in shares.

7 Voluntary disclosure of target opportunity with 50% share price depreciation whereby Mr Gamkrelidze receives fixed remuneration (as described in 3 above) and discretionary deferred shares (calculated as in 4 above) at 70% of the maximum opportunity. Share price decline by 50% is only in relation to deferred salary shares because the maximum (or 70%) discretionary deferred share opportunity is fixed to a dollar amount (or 70% thereof), which is then awarded in shares.

8 For long-term incentive awards, disclosure of the value of the award in the event of a 50% share price appreciation is required by the Companies (Miscellaneous Reporting) Regulations 2018. Such disclosure is not required for short-term incentive awards, such as those made by the Group, where performance measures are limited to one year, nor is it required for salary compensation in the form of shares. The reason for this is that an increase in the value of the deferred shares resulting from share price appreciation in the period through to the vesting date is not considered to constitute remuneration for the purposes of the regulations. However, the Group has decided to voluntarily disclose information showing the value of a 50% increase in the share price for investor information.

Remuneration Report continued

Remuneration Policy table for Chair and Non-Executive Directors

Component	Purpose and link to strategy	Operation	Opportunity	Performance measures
Chair and Non-Executive Directors fees	To attract and retain experienced individuals. Compensate for additional time spent discharging committee duties.	All fees are paid in cash on a quarterly basis. The fee of the Chair will be determined by the Remuneration Committee. Fees for Non-Executive Directors will be determined by the Board. The fees may be reviewed from time to time by the above, taking into account the time commitment, responsibilities and the technical skills required to make a valuable contribution to the Board, and by reference to comparators, benchmarking, results of the annual review and other guidance. The Board reserves the right, in their discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. Non-Executive Directors receive a base fee. Additional committee fees are payable to compensate for time spent discharging Bank duties and committee duties. Non-Executive Directors are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.	The maximum aggregate GHG PLC fees for all Non-Executive Directors which may be paid under GHG PLC's Articles of Association is GBP 750,000. A specific maximum has not been set for the individual base cash fee. The Chair receives a fee which reflects the extra time commitment and responsibility. The Chair does not receive committee fees. The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility.	N/A

Service agreements

Mr Gamkrelidze is the sole Executive Director of the Company. Mr Gamkrelidze has a service contract effective 1 June 2019 with GHG PLC for an indefinite term (subject to re-election at the AGM), which is terminable by either party on four months' notice unless for cause where notice is served by GHG PLC shall have immediate effect.

Mr Gamkrelidze also has a service contract effective 1 June 2019 with JSC GHG for an employment term of three years, which is terminable by the Company with immediate effect and by the Executive on not less than three months' notice.

Letters of Non-Executive Directors' appointments

Each Non-Executive Director is required to submit himself or herself for annual re-election at the AGM.

The letters of appointment provide for a one-month notice period although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any serious breach or non-observance of his or her obligations to the Group, is guilty of fraud or dishonesty, brings the Group or him/herself into disrepute or is disqualified from acting as a Non-Executive Director, among other circumstances. Upon termination, the only remuneration a Non-Executive Director is entitled to is accrued fees as at the date of termination, together with reimbursement of properly incurred expenses incurred prior to the termination date.

Signed on behalf of the Board of Directors

Tim Elsigood
Chair of the Remuneration Committee
7 April 2020

Statement of Directors' Responsibilities

Directors' responsibilities in respect of the preparation of the Financial Statements

The Directors are responsible for preparing the Annual Report and the consolidated and stand-alone Financial Statements in accordance with applicable law and regulations.

Company law requires us to prepare Financial Statements for each financial year. As required, we have prepared the accompanying consolidated and separate statements in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union and applicable law.

We must not approve the accompanying consolidated and stand-alone Financial Statements unless we are satisfied that they give a true and fair view of the state of affairs of the Group and the Company, and of the profit or loss of the Group and the Company for that period.

In preparing the accompanying consolidated and separate Financial Statements, we are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable us to ensure that the consolidated and separate Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the consolidated and stand-alone Financial Statements, Article 4 of the IAS Regulation.

We have further responsibility for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We are also responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the consolidated and stand-alone Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole; and
- the Strategic Report and the Directors' Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that it faces.

In arriving at this position, the Board was assisted by a number of processes that form part of its internal control and risk management systems, including the following:

- the Annual Report is drafted by appropriate senior management with overall coordination by the Head of Investor Relations to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report are undertaken by the Chief Executive Officer and other senior executive management;
- an advanced draft is considered and reviewed by GHG's legal advisers; and
- the final draft is reviewed by the Audit Committee prior to consideration by the Board.

We consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and gives shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Board

Bill Huyett
Chair
7 April 2020

Nikoloz Gamkrelidze
Chief Executive Officer
7 April 2020

Directors' Report

The Directors present their Annual Report and the audited consolidated Financial Statements for the year ended 31 December 2019.

Strategic Report

The Strategic Report on pages 2 to 69 was approved by the Board of Directors on 7 April 2020 and signed on its behalf by Nikoloz Gamkrelidze, Chief Executive Officer.

Management Report

This Directors' Report, together with the Strategic Report on pages 2 to 69, form the Management Report for the purposes of DTR 4.1.5 R.

Information contained elsewhere in the Annual Report

Information required to be included in this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Location in Annual Report
Future Developments	Pages 2 to 69
Going Concern Statement	Page 54
Viability Statement	Page 54
Risk Management	Pages 51 to 54
Principal Risks and Uncertainties	Pages 55 to 60
Directors' Governance Statement	Pages 70 to 83
The Board of Directors	Pages 78 to 79
Nomination Committee Report	Pages 96 to 99
Audit Committee Report	Pages 84 to 90
Clinical Quality and Safety Committee Report	Pages 91 to 95
Remuneration Committee Report	Pages 100 to 114
Greenhouse Gas Emissions	Pages 40 to 48
Research and Development	Pages 40 to 48
Employee Matters	Pages 40 to 48
Environmental Matters	Pages 40 to 48
Share Capital	Note 22 on page 162
Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk, foreign currency risk and financial instruments	Note 36 on pages 168 to 174

Articles of Association

GHG's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The process for the appointment and removal of Directors is included in our Articles of Association. The GHG Articles of Association are available on GHG's website: http://ghg.com.ge/articles-of-association.

Share capital and rights attaching to the shares

Details of the movements in share capital during the year are provided in Note 22 to the consolidated Financial Statements on page 162 of this Annual Report.

As at the date of this Annual Report, there was a single class of 131,681,820 ordinary shares of one pence each in issue, each with one vote. The rights and obligations attaching to GHG's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and GHG's Articles of Association, to:

- have shareholder documents made available to them including the notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

GHG is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006. Authority was given at the 2019 AGM for the Company to purchase up to 13,168,182 shares but no purchases were made during this financial year.

The authority will expire at the conclusion of the Company's AGM in 2020 or if earlier, at the close of business on 22 June 2020.

At the 2019 AGM, the Directors were given the power: a) to allot shares up to a maximum nominal amount of GBP 438,939.40, representing approximately a third of the Company's issued share capital as at 2 April 2019; and b) to allot equity securities up to an aggregate nominal amount of GBP 438,939.40, in connection with an offer by way of a rights issue: (i) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2020 AGM (or, if earlier, at the close of business on 22 August 2020) and approval will be sought at that meeting to renew a similar authority for a further year.

None of the ordinary shares carry any special rights with regard to control of GHG.

There are no restrictions on transfers of shares other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing or pursuant to the Group's Inside Information Disclosure Policy;
- pursuant to the Group Securities Dealing Policy and Code, whereby the Directors and designated employees require approval to deal in GHG's shares or cannot deal in certain periods; and
- where a person with an interest in GHG's shares has been served with a disclosure notice and has failed to provide GHG with information concerning interests in those shares.

There are no restrictions on exercising voting rights save in situations where GHG is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to GHG). GHG is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Results and Dividend Policy

The Group made a profit before taxation of GEL 63.1 million (year ended 31 December 2018: GEL 53.9 million). The Group's profit after taxation for the year was GEL 61.6 million (year ended 31 December 2018: GEL 53.2 million).

GHG may, by ordinary resolution, declare dividends provided that no such dividend shall exceed the amount recommended by GHG's Directors. The Directors may also pay such interim dividends as appear to be justified by the profits of GHG available for distribution.

As GHG is a holding company, GHG relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividends to its shareholders.

GHG adopted a new Dividend Policy on 26 March 2019 of 20%-30% of annual profit attributable to shareholders to be distributed as dividend. Changes in the dividend payout ratio or proposed distribution of dividends in excess of current period annual profit would constitute a change in the Group Dividend Policy and require appropriate pre-approval by the Board. It is the Board's intention that any change to dividend policy would be prospective only and communicated to shareholders in advance.

Please refer to Note 39 to the consolidated Financial Statements on page 178, "Events After Reporting Period". As announced on 18 March 2020, the Board of Directors has decided not to recommend a dividend to shareholders at the 2020 Annual General Meeting at this stage. When the full economic impact of the COVID-19 pandemic is better understood, the Board will consider the appropriate level of any future dividend payments.

Equity Settled Option Plan ("ESOP")

The Company operates an Employee Benefit Trust (EBT) (the "ESOP"), which holds ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependents, and which is used in conjunction with the Group's employee share schemes. Whilst ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBT.

In accordance with the ESOP documentation, Sanne Fiduciary Services Limited has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by GHG. The Group previously committed that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the premium segment of the LSE will not exceed 10% of GHG's ordinary share capital over any ten-year period.

Powers of Directors

The Directors may exercise all powers of GHG subject to applicable legislation and regulations and GHG's Articles of Association.

Conflicts of interest

In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2019. GHG's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law.

Non-Executive Directors' terms of appointment

On appointment, our Non-Executive Directors are issued with a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25-35 days per year to the role. An additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairs, as applicable. In 2019, the Nomination Committee, on behalf of the Board, reviewed the external time commitments of all Directors. Following that review, the Committee remains of the view that all Non-Executive Directors continue to dedicate the amount of time necessary to contribute to the effectiveness of the Board.

The average tenure of our Non-Executive Directors is less than four years, with the majority having been appointed in August or September 2015, prior to the Group's admission to listing on the London Stock Exchange.

The letters of appointment for our Non-Executive Directors are available for inspection at our Company's registered office during normal business hours.

Directors' Report continued

Diversity Policy
We value diversity in all forms in accordance with our Diversity Policy, first adopted in 2015 and last reviewed in September 2019. See pages 98 and 99 in the Nomination Committee Report for a description of the Group Diversity Policy, its objectives, implementation and results.

External appointments
Prior to accepting any additional external appointments, Directors are required to seek the Board's approval. As a general principle, the Board believe, that the other external directorships/positions held provide Directors with valuable expertise which enhances their ability to act as a Non-Executive Director of the Company. The Non-Executive Directors hold external directorships or other external positions and the Board believes they still have sufficient time to devote to their duties as a Director of the Company.

Directors' remuneration
Directors' fees are determined by the Remuneration Committee from time to time. The remuneration of Directors' must be in accordance with the Directors' Remuneration Policy, which was last approved by shareholders in 2019 and will be subject to review and approval at the Annual General Meeting in 2022.

The fees paid to the Non-Executive Directors in 2019, pursuant to their letters of appointment, are shown on page 105. The fees paid to our sole Executive Director in 2019 pursuant to his service agreements with GHG are shown on page 102.

Information and support
All Directors have access to the advice of the Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

Company Secretary
The Board appointed Link Company Matters Limited to act as Company Secretary to the Group in June 2018. Link Company Matters Limited is one of the UK's largest professional services secretarial teams. All Directors have access to the advice of the Company Secretary as well as independent professional advice, at the Company's expense, on any matter relating to their responsibilities.

Re-election of Directors
In line with the Code's recommendations, all Directors seek re-election every year and accordingly, all Directors who wish to continue on the Board will stand for re-election in 2020. The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for re-election as applicable.

Annual General Meeting
The Notice of Annual General Meeting is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the Annual General Meeting, where there is an opportunity for individual shareholders to question the Chair of the Board and the Chairs of the principal Board Committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

All resolutions proposed at the 2020 Annual General Meeting will be voted on separately and the voting results will be announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. These will include all votes cast for and against and those withheld, together with all proxies lodged prior to the meeting. In the event that 20% or more of votes have been cast against a resolution, an explanation will be provided in the announcement to the London Stock Exchange of the actions the Company will be taking to address shareholders' concerns. A follow-up announcement would then be made within six months of the Annual General Meeting regarding feedback received from shareholders and the subsequent actions taken by the Company.

See page 181 for further Shareholder Information, and pages 73 and 74 for further information on shareholder and stakeholder engagement.

UK Bribery Act 2010 (the "Bribery Act")
The Board stands firmly against bribery and corruption, and is committed to the Group and each of its businesses acting in an ethical manner. To support this and in response to this legislation, the Group has implemented and enforces its Anti-Bribery and Anti-Corruption Policy. The Board attaches the utmost importance to the Policy and its systems. The Company has also introduced a whistleblowing system, including an anonymous helpline, under its Whistleblowing Policy. Further information on the implementation of these policies is set out in the Resources and Responsibilities section of this Report on pages 40 to 48.

Directors' responsibilities
Statements explaining the responsibilities of the Directors for preparing the Annual Report and Consolidated and Separate Financial Statements can be found on page 115 of this Annual Report.

A further statement is provided, confirming that the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Directors' interests
The Directors' beneficial interests in ordinary shares of GHG as at 31 December 2019 are shown on page 106, together with any changes in those interests between the financial year end and the date on which this Directors' Report was approved by the Board.

Indemnity
Subject to applicable legislation, every current and former Director or other officer of GHG (other than any person engaged by the Company as auditor) shall be indemnified by GHG against (broadly) any liability in relation to GHG, other than (broadly) any liability to GHG or a member of the Group, or any criminal or regulatory fine. In addition, the Company has put in place Directors' and Officers' indemnity insurance.

Related party disclosures
Details of related party disclosures are set out in Note 38 to the consolidated Financial Statements on page 177 of this Annual Report.

Significant agreements – change of control
On 23 October 2015, GHG entered into a Relationship Agreement with BGEO Group PLC and JSC BGEO Investments, which regulates the degree of control that BGEO and its associates may exercise over the management and business of the Group.

Due to the Demerger of the BGEO Group, the existing Relationship Agreement on 29 May 2018 was substituted by an amended version of the Relationship Agreement, where BGEO Group PLC and JSC BGEO were replaced by Georgia Capital PLC and JSC Georgia Capital, respectively (both referred to as "Georgia Capital"). The rest of the terms remained unaltered.

The principal purpose of the Relationship Agreement is to ensure that GHG and its subsidiaries are capable at all times of carrying on their business independently of Georgia Capital and its associates. The initial Relationship Agreement took effect on 12 November 2015 and the Relationship Agreement will continue until the earlier of: (i) GHG shares ceasing to be admitted to listing on the Official List; and (ii) Georgia Capital, together with its associates, ceasing to own or control (directly or indirectly) 20% or more of the voting share capital of GHG. If Georgia Capital ceases to be a controlling shareholder (within the meaning of LR 6.1.2A of the Listing Rules), and continues to exercise control over the votes indicated in clause ii above, then it may terminate the Relationship Agreement by giving one month's written notice to GHG.

Under the Relationship Agreement, for so long as Georgia Capital and its associates together hold 20% or more of the voting share capital of GHG, Georgia Capital and its associates shall amongst other things:
- conduct all transactions, agreements or arrangements entered into between: (i) Georgia Capital and its associates; and (ii) GHG or any of its subsidiaries on an arm's length basis and on normal commercial terms and in accordance with the related party transaction rules set out in the Listing Rules;
- not take any action that has or would have the effect of preventing GHG or any of its subsidiaries from complying with their obligations under the Listing Rules;
- not propose or procure the proposal of any resolution of the shareholders (or any class thereof) which is intended, or appears to be intended, to circumvent the proper application of the Listing Rules; and/or
- abstain from voting on any resolution required by LR 11.1.7R(3) of the Listing Rules to approve a transaction with a related party involving Georgia Capital.

The Relationship Agreement entitles Georgia Capital to appoint one person to be a Non-Executive Director of GHG for so long as it (together with its associates) holds at least 20% of the voting share capital of GHG.

The Relationship Agreement also provides that (subject to permitted exceptions) neither Georgia Capital nor its associates shall compete with the business of GHG nor use any names associated with GHG and that GHG shall not use any names associated with Georgia Capital or its associates. The Company has complied with the terms of the Relationship Agreement and, in so far as it is aware, Georgia Capital and its associate have complied with the mandatory provisions of the Relationship Agreement during the financial year.

Copies of both Relationship Agreements are available to view at the Company's registered office.

At no time during 2019 did any Director hold a material interest in any contracts of significance with GHG or any subsidiary of the Group. The Company is not party to any other significant agreements that would take effect, alter or terminate following a change of control of the Company.

There are no agreements between the Company and any Director or employee that would provide compensation for loss of office or loss of employment that occurs because of a takeover bid. However, under the plans and provisions of the Company's share schemes (including for deferred share salary and discretionary share compensation) and certain service agreements entered into between the Company and the Executives (as described in further detail in the Directors' Remuneration Report) and between the Company and certain senior managers, certain awards granted to the Executive and senior management will vest on a takeover or other change of control.

Presence outside Georgia
We have our Company office in London, see page 181.

Employee disclosures
Our disclosures relating to the number of women in senior management, employee engagement and our policies on human rights, including employment of disabled persons, are included in the section Employee Matters on pages 42 to 45 and in the Nomination Committee Report on pages 96 to 99.

Directors' Report continued

Political donations

The Group did not make any political donations or expenditure during 2019. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2020 AGM.

Code of Conduct and Ethics

The Board has adopted a Code of Conduct and Ethics relating to the lawful and ethical conduct of the business, supported by the Group's core values. The Code of Conduct and Ethics has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Our Code of Conduct and Ethics is available on our website: http://ghg.com.ge/policies.

Independent auditors

A resolution to reappoint Ernst & Young LLP as auditors of GHG will be put to shareholders at the upcoming AGM.

Major interests in shares

The table below lists shareholders with voting rights of more than 3% as of 31 December 2019:

	As at 31 December 2019	
Shareholder	Number of voting rights	% of voting rights
JSC Georgia Capital	93,011,414	70.6%
Wellington Management Company LLP	6,173,703	4.69%
T Rowe Price	5,353,265	4.07%

Source: Georgeson, Computershare

From the period 1 January 2020 up to and including 7 April 2020, there have been no further notifications to the Company in respect of interests in voting rights.

It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. The respective regulatory filings by shareholders are available on the GHG website: http://ghg.com.ge/regulatory-announcements and the London Stock Exchange website: https://www.londonstockexchange.com.

Post balance sheet events

As a result of global pandemic in relation to COVID-19, the Group has developed a significant Group-wide action plan to address the outside demand, our customers and patients' needs, as well as to ensure the performance and well-being of our employees at an organisational level, as announced on 18 March 2020. Please refer to Note 39 to the consolidated Financial Statements on page 178, Events After Reporting Period, for information on this matter.

Statement of disclosure of information to the auditor

We confirm that, so far as we are aware, there is no relevant audit information of which the Group's auditors are unaware and we have taken all steps that we reasonably believe should be taken as Directors in order to make ourselves aware of any relevant audit information, and to establish that the Company's statutory auditors are aware of such information.

Information to be disclosed in accordance with Listing Rule 9.8.4R

The following information required to be disclosed in terms of Listing Rule 9.8.4R is not applicable unless stated otherwise:

- the amount of interest capitalised during the period under review and details of any related tax relief;
- information in relation to the publication of unaudited financial information;
- details of any long-term incentive schemes;
- any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company;
- details of any non-pre-emptive issues of equity for cash;
- any non-pre-emptive issues of equity for cash by the Company or by any unlisted major subsidiary undertaking;
- parent participation in a placing by a listed subsidiary;
- any contract of significance in which a Director is or was materially interested;
- any waiver of dividends by a shareholder; and
- a statement in respect of the Relationship Agreement with the controlling shareholder appears on page.

The Directors' Report on pages 116 to 120 was approved by the Board of Directors on 7 April 2020 and signed on its behalf:

By order of the Board

Link Company Matters Ltd
Company Secretary
7 April 2020

Independent Auditor's Report
As at 31 December (thousands of Georgian Lari)

Opinion
In our opinion:
- Georgia Healthcare Group PLC's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Georgia Healthcare Group PLC which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2019	Separate statement of financial position as at 31 December 2019
Consolidated statement of comprehensive income for the year ended 31 December 2019	
Consolidated statement of changes in equity for the year ended 31 December 2019	Separate statement of changes in equity for the year ended 31 December 2019
Consolidated statement of cash flows for the year ended 31 December 2019	Separate statement of cash flows for the year ended 31 December 2019
Related notes 1 to 39 to the consolidated financial statements, including a summary of significant accounting policies	Related notes 1 to 39 to the extent they apply to the company financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement
We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:
- the disclosures in the annual report set out on page 55 to 60 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 115 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 54 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 54 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Risk of fraud in recognition of healthcare, pharma and medical insurance revenue. • Goodwill impairment.
Audit scope	• We performed an audit of the complete financial information of 3 components and audit procedures on specific balances for a further 3 components. • The components where we performed full or specific audit procedures accounted for 100% of profit before tax, 99% of revenue and 98% of total assets.
Materiality	• We used a group materiality of GEL 3.2m which represents 5% of profit before tax.

Independent Auditor's Report continued

As at 31 December (thousands of Georgian Lari)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Manual adjustments in healthcare, pharma and medical insurance revenue (GEL 961m, 2018: GEL 846m) *Refer to the Audit Committee Report (page 84); Accounting policies (page 138); and Note 23 and 24 of the Consolidated Financial Statements (page 164)* Investors' and analysts' expectations of the Company could result in pressure on management to overstate revenue growth. There is a risk that management may override controls through manipulating revenue and hence increasing profit. Specific considerations include: • Manual adjustments in respect of long-term treatments and price correction in GHG's hospitals and clinics businesses. • Manual adjustments in the wholesale pharma business. • Manual adjustments in the medical insurance business. The risk has remained consistent with the prior year.	Our procedures to the risk were performed by component teams in all full and specific scope components. • We performed test of details on a sample of manual adjustments to revenue, including those adjustments made for long term treatments in the hospitals and clinics businesses by obtaining supporting evidence for the measurement of revenue and the appropriateness of the period in which transactions were recorded; • We performed journal entries testing based on pre-determined criteria to identify and test the risk of misstatement arising from management override of controls; Furthermore, in relation to revenue we also: • obtained an understanding of the different revenue streams and revenue models across the Group, namely hospitals, clinics, diagnostics, pharma and insurance businesses; • evaluated the relevant controls in the revenue cycle by assessing the design and testing the operational effectiveness of key controls across all revenue streams; • On a sample basis we audited the completeness and appropriateness of the calculations related to corrections and rebates from the government, by benchmarking the historical average of corrections and rebates to the current year adjustment; • obtained an understanding of the process followed by management to identify potentially impaired receivable balances in the healthcare business and inspected a sample of invoices not approved by the Government as at 31 December 2019 and tested subsequent settlement; • performed cut-off testing procedures for a sample of transactions either side of year end; • selected key items and a representative sample of revenue transactions and tested them by agreeing revenue details to supporting documentation. For revenue from the pharmaceutical business, we ran correlation analysis of cash and revenue using data analytics. This provided us with a high level of assurance over GEL 430m (46%) (2018: GEL 372m (44%)) of revenue recognised by the Group. • For insurance premiums, we recalculated the unearned premium reserve and related income statement accounts; • performed analytical procedures by comparing monthly and yearly trends to understand the movements and identify unusual trends in revenue recognition; and • considered whether the presentation and disclosure of revenue in the financial statements is in accordance with IFRS 15 for hospitals, clinics, diagnostics, and pharmaceutical revenue, and insurance revenue under IFRS 4.	Based on the procedures performed, we are satisfied that manual adjustments posted in healthcare, pharma and medical insurance revenue are appropriate and in accordance with the Group's accounting policy and IFRS 15.

Risk	Our response to the risk	Key observations communicated to the Audit Committee

Goodwill impairment
(Goodwill, GEL 115m, 2018: GEL 115m)
 	
Refer to the Audit Committee Report (page 84); Accounting policies (page 138); and Note 12 of the Consolidated Financial Statements
 	
The group has a significant amount of goodwill allocated to the pharma (GEL 78m), hospitals (GEL 28m), clinics (GEL 6m) and medical insurance (GEL 3m) businesses, which is tested for impairment annually. The latest test performed at 30 September 2019 indicated no impairment, although emphasized, there was low headroom for Hospitals and Clinics goodwill when applying reasonably possible sensitivities. Further, the Group performed an overview of events and circumstances subsequent to 30 September 2019 to ensure there has been no significant changes that would impact conclusion reached as at 30 September 2019.
 	
There is a risk that these cash-generating units ('CGUs') may not achieve the anticipated business performance to support their carrying value, leading to an impairment charge that has not been recognised by management.
 	
Significant judgement is required in forecasting the future cash flows of each CGU, together with the rate at which they are discounted.
 	
The risk has remained consistent with the prior year.
	Audit procedures on goodwill impairment were performed by the integrated primary team, including EY valuation specialists.
	• We obtained an understanding of the processes and controls over the performance of the goodwill impairment assessment;
	• We validated that the goodwill was appropriately allocated to the cash-generating units (CGUs) as a result of change in segment reporting;
	• We assessed the appropriateness of the valuation methodology applied by management in determining the value in use ('VIU') by comparing with the requirements of IAS 36 Impairment of assets;
	• We checked the integrity of the discounted cash flow models prepared by management, and tested key assumptions:
	  • validated that the cash flows underpinning the calculation were consistent with the three-year strategic plan approved by the Board;
	  • challenged the short and long term growth forecasts, having regard to historical performance and external market data to support the robustness of the forecast process;
	  • engaged our internal valuations specialists to assist with our consideration of the discount rates;
	  • performed an overview of events and circumstances subsequent to 30 September 2019. This included analysis of macroeconomic indicators and future forecasts to healthcare and pharmaceutical market in Georgia, and
	  • assessed the adequacy of sensitivity analysis performed by management, stress testing each of the above assumptions individually and in combination to reflect what we considered to be reasonably foreseeable changes in the key assumptions.
	• We validated the appropriateness of the related disclosures in note 4 and note 12 of the financial statements.
		We concluded that for each CGU, the recoverable amount of goodwill exceeds its carrying amount, hence not impaired as at 31 December 2019. Of the Group's goodwill, the headroom relating to the hospitals and clinics businesses remains very sensitive to reasonably possible changes in key assumptions.
		
		We consider that:
		• the allocation of goodwill to CGU is appropriate and in line with the requirements of IAS 36;
		• the forecasts used are a reasonable basis upon which to perform the impairment assessment; and
		• the assumptions for the pre-tax discount rate, short term growth and long-term growth applied by management are within an acceptable range and are consistent with independent economic forecasts.
		• the related disclosures provided in the financial statements are appropriate.

Independent Auditor's Report continued
As at 31 December (thousands of Georgian Lari)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
(New in 2019) **Going concern basis used in preparation of the Annual Report & Accounts** Refer to the Audit Committee Report (page 84); Strategic Report (pages 2 to 69) and Note 2 to the Consolidated Financial Statements. The Company's Annual Report and Accounts are prepared on the going concern basis of accounting. This basis is dependent on a number of factors, including the Group's financial performance, the Group's continued access to bank borrowing facilities and the Group's ability to continue to operate within its financial covenants. The COVID-19 pandemic is of an unprecedented scale and has severely impacted the global economy and businesses across all industries. There is a significant degree of uncertainty about the further spread of the virus and the state of the world economy. The Group's borrowing facilities are subject to financial covenants tested quarterly on a rolling 12-month basis. Net Debt to adjusted EBITDA ratio is the most sensitive during the next 12-month period. The Company had significant headroom on covenant tests at 31 December 2019. The Group has been renegotiating its covenant limits since December 2019 in order to secure additional future headroom. At this time the new covenants are confirmed with some but not all of the Groups lenders. Under the severe but plausible stress testing undertaken by the Company the new covenants provide headroom whereas the existing covenant would be close to the limit at 31 December 2020. The Directors have concluded that no material uncertainty over Going Concern exists as even under their most severe stress test there is no projected breach of covenants.	In light of COVID-19 pandemic the audit partner and other senior members of the audit team spent a significant amount of time performing the following procedures. We obtained the base case cash flow and forecasts covering the full viability assessment period until 31 December 2022 and the single worst case scenario prepared by management and assessed the appropriateness of the inputs and key assumptions used in the forecasts. We screened the local media and public announcements made by the Government of Georgia to assess the severity of COVID-19 pandemic in the country and the Government's ability and intentions to support the local economy. We obtained the cash flow and covenant forecasts and sensitivities prepared by management and assessed the calculation of headroom in respect of the financial covenant compliance including the COVID-19 impact. • We assessed the reasonableness of management's business plans and appropriateness of the inputs and key assumptions used in the forecasts including the COVID-19 impact. • We performed independent sensitivities to assess whether the headroom calculations are reasonable including the COVID-19 impact. In particular, we further stressed the company's assumptions related to decreases in revenue in hospitals for elective care and outpatient services. We also included further weakening of the Georgian Lari against US$ and Euro. We also considered additional mitigating factors such as a lower decrease in pharmaceutical revenue based on the actual sales growth in 1Q2020 and recent Georgian pharmaceutical market forecasts. • We obtained evidence of the agreements obtained from lenders confirming the covenant resets for the period subsequent to 31 December 2019. We assessed the adequacy of going concern and viability disclosures.	Based on the results of our audit procedures, we concur that there is no material uncertainty related to the Company's ability to continue as a going concern. We confirmed that the going concern and viability disclosures are appropriate and adequate.

In 2H 2019, the Group concluded a voluntary change of accounting policy for hospitals and clinics, land plots and office buildings by switching from a revaluation model to cost accounting. Consequently, the risk in respect of valuation of hospitals and clinics, lands plots and office buildings has reduced such that it is no longer considered a key audit matter.

An overview of the scope of our audit
Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile and changes in the business environment when assessing the level of work to be performed at each entity.

In scoping the audit, we reflect the group's structure (holding company, healthcare services, pharmacy and distribution and medical insurance). In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we performed full or specific scope audit procedures over 6 components covering entities within the United Kingdom and Georgia, which represent the principal business units within the Group.

Of the 6 components selected, we performed an audit of the complete financial information of 3 components ("full scope components") which were selected based on their size or risk characteristics. For the other three components ("specific scope components"), we performed audit procedures on specific accounts within the components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. In 2019, the remaining component not subject to full or specific group scoping represents an entity which is not significant individually. The size of remaining component represents less than 1% of the Group's profit before tax.

The table below illustrates the coverage obtained from the work we performed:

	2019				2018			
	No.	Revenue	Profit	Total Assets	No.	Revenue	Profit[4]	Total Assets
Full scope[1]	3	94%	94%	81%	3	87%	91%	92%
Specific scope[2]	3	5%	5%	17%	1	6%	6%	4%
Full and Specific scope coverage	6	99%	99%	98%	3	93%	97%	96%
Remaining component[3]	1	1%	1%	2%	1	7%	3%	4%
Total reporting components	7	100%	100%	100%	4	100%	100%	100%

1. We audited the complete financial information.
2. We audited specific accounts within these components. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.
3. We performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.
4. Profit before non-recurring items and tax

Changes from the prior year

Due to change in operating segments in 2019, healthcare business has been split into hospitals, clinics and diagnostics businesses. In 2018 healthcare business as a whole was designated as a full scope component, whereas in 2019 we have assigned full scope to Hospitals business, specific scope to clinics and other procedures scope to diagnostics business.

There have been no other changes to our assessment of the risks of material misstatement

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from EY Georgia operating under our instruction. For the tree full scope components, and three specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, we held an audit team event led by the Senior Statutory Auditor, where the primary audit team and the component teams considered the audit risk and strategy. The primary audit team continued to follow a programme of planned visits that has been designed to ensure that the audit is executed and delivered in accordance with the planned approach and to confirm the quality of the audit work undertaken. The Senior Statutory Auditor is based in the United Kingdom, but since Group management and operations reside in Georgia, the primary audit team operates as an integrated primary team including members from the United Kingdom and Georgia. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Georgia. The Senior Statutory Auditor visited Georgia twice during the current year's audit and there was regular interaction between team members in the UK and Georgia.

These visits involved discussing the audit approach with the Georgian members of the integrated primary team and the component teams and any issues arising from their work, meeting with Group and local management, attending planning and closing meetings and reviewing key audit working papers on risk areas. The primary team interacted regularly with the component teams throughout the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be GEL 3.2m (2018: GEL 2.8m), which is 5% of profit before tax (2018: 5% of pre-tax profit excluding non-recurring items). We believe that profit before tax best represents the recurring results of the operations of the Group and as such provides us an appropriate basis for determining the nature, timing and extent of further audit procedures.

Independent Auditor's Report continued
As at 31 December (thousands of Georgian Lari)

Starting basis	**Profit before tax – GEL 63.1m**
Materiality	**Materiality of GEL 3.2m (5% of materiality basis)**

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2018: 50%) of our planning materiality, namely GEL 1.6m (2018: GEL 1.4m). We have set performance materiality at this percentage due to our past experience of the audit that indicate a higher risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was GEL 0.5m to GEL 1.0m (2018: GEL 0.22m to GEL 1.1m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 0.16m (2018: GEL 0.14m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon, including the following sections in the annual report:
- Strategic report set out on pages 2 to 69;
- Governance section, including Directors' Governance Statement, Shareholder Engagement, Board and Senior Management, Nomination Committee Report, Audit Committee Report, Clinical Quality and Safety Committee Report, Remuneration Committee, Statement of Directors' Responsibilities and Directors' Report, set out on pages 70 to 120; and
- Additional information, including Abbreviations, Glossary and Shareholder information, set out on pages 179 to 181.

The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:
- **Fair, balanced and understandable set out on page 115** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 84** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 70** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 115, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority requirements) and those laws and regulations relating to the provision of healthcare and pharmaceutical services in Georgia.
- We understood how the group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plans targets and their potential to influence management to manage earnings or influence the perceptions of investors.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in above. Our procedures involved: journal entry testing, with a focus on journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, management of business segments; and focused testing as referred to in the Key Audit Matters section above.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report continued

As at 31 December (thousands of Georgian Lari)

Other matters we are required to address

- We were appointed by the company and signed the engagement letter on 25 July 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.
- Following the recommendation of the Audit committee, we were re-reappointed as auditors by the shareholders at the 2019 AGM.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2015 to 31 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Flaherty (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
7 April 2020

Notes:

1. The maintenance and integrity of the Georgia Healthcare Group PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Separate Statement of Financial Position

As at 31 December (thousands of Georgian Lari)

	Notes	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	6	**37**	3,041
Prepayments		**872**	357
Dividend receivable from subsidiary		**4,585**	–
Investments in subsidiaries	1	**404,824**	404,824
Total assets		**410,318**	408,222
Liabilities			
Borrowings from subsidiaries	17	**10,251**	9,432
Accounts payable		**183**	201
Accruals for employee compensation		**88**	52
Total liabilities		**10,522**	9,685
Equity			
Share capital	22	**4,784**	4,784
Retained earnings*	22	**395,012**	393,753
Total equity		**399,796**	398,537
Total equity and liabilities		**410,318**	408,222

* The Company has not presented its own profit and loss account as permitted by section 408(3) of the Companies Act 2006 ('the Act'). The profit in the Financial Statements of the Company, determined in accordance with the Act, was GEL 8,112 (2018: loss of GEL 6,061).

The Financial Statements on pages 129 to 179 were approved by the Board of Directors of Georgia Healthcare Group PLC on 7 April 2020 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
7 April 2020

Company registration number: 09752452

The accompanying notes on pages **136 to 179** form an integral part of these consolidated Financial Statements.

Separate Statement of Changes in Equity

For the year ended 31 December (thousands of Georgian Lari)

	Attributable to the shareholders of the Company		
	Share Capital	Retained earnings	Total equity
1 January 2018	4,784	399,814	404,598
Loss for the period	–	(6,061)	(6,061)
Total comprehensive income	–	(6,061)	(6,061)
31 December 2018	4,784	393,753	398,537
Profit for the period	**–**	**8,112**	**8,112**
Dividends declared to shareholders of the Company	**–**	**(6,853)**	**(6,853)**
31 December 2019	**4,784**	**395,012**	**399,796**

The accompanying notes on pages 136 to 179 form an integral part of these consolidated Financial Statements.

Separate Statement of Cash Flows

For the year ended 31 December (Thousands of Georgian Lari unless otherwise stated)

	Notes	**31 December 2019**	31 December 2018
Cash flows used in operating activities			
Salaries and other employee benefits paid		**(2,226)**	(1,958)
General and administrative expenses paid		**(3,196)**	(2,541)
Dividend received from subsidiary		**9,615**	–
Other operating expenses paid		**(15)**	(14)
Net cash flows used in operating activities		**4,178**	(4,513)
Cash flows used in investing activities			
Proceeds from amounts due from credit institutions		**–**	–
Net cash used in investing activities		**–**	–
Cash flows from financing activities			
Dividends paid to shareholders of the Group		**(6,952)**	–
Interest expense paid on borrowings from subsidiaries		**(544)**	–
Net cash flows from financing activities		**(7,496)**	–
Effect of exchange rates changes on cash and cash equivalents		**314**	(65)
Net increase/(decrease) in cash and cash equivalents		**(3,004)**	(4,578)
Cash and cash equivalents, beginning	6	**3,041**	7,619
Cash and cash equivalents, end	6	**37**	3,041

The accompanying notes on pages 136 to 179 form an integral part of these consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 31 December (thousands of Georgian Lari)

	Notes	**31 December 2019**	31 December 2018 (restated)[1]	1 January 2018 (restated)[1]
Assets				
Cash and cash equivalents	6	**18,417**	36,154	48,840
Amounts due from credit institutions	7	**13,588**	11,807	14,768
Insurance premiums receivable	8	**26,892**	23,643	20,233
Receivables from healthcare services	9	**130,212**	106,841	100,944
Receivables from sales of pharmaceuticals		**17,508**	20,440	19,798
Inventory	14	**174,462**	146,164	131,849
Prepayments		**12,289**	13,064	30,354
Current income tax assets		**757**	1,007	2,026
Investment in associate		**3,481**	3,124	2,745
Property and equipment	10	**671,658**	672,841	617,608
Right of use assets	11	**84,115**	8,799	8,854
Goodwill and other intangible assets	12	**162,247**	152,298	143,674
Other assets	15	**35,581**	27,927	22,748
Total assets		**1,351,207**	1,224,109	1,164,441
Liabilities				
Accruals for employee compensation		**27,464**	26,615	21,944
Insurance contract liabilities	16	**25,489**	22,544	20,953
Accounts payable	18	**128,700**	105,092	105,963
Current income tax liabilities		**973**	41	72
Lease liabilities	11	**90,791**	8,676	8,834
Payables for share acquisitions	20	**96,449**	91,474	98,258
Borrowings	17	**269,434**	296,817	267,010
Debt securities issued	19	**94,151**	93,573	93,493
Other liabilities		**15,482**	20,643	15,911
Total liabilities		**748,933**	665,475	632,438
Equity				
Share capital	22	**4,784**	4,784	4,784
Additional paid-in capital	22	**8,536**	4,788	1,708
Treasury shares	22	**(134)**	(134)	(134)
Other reserves	22	**(47,674)**	(48,979)	(42,510)
Retained earnings		**565,387**	532,091	504,192
Total equity attributable to shareholders of the Company		**530,899**	492,550	468,040
Non-controlling interests		**71,375**	66,084	63,963
Total equity		**602,274**	558,634	532,003
Total equity and liabilities		**1,351,207**	1,224,109	1,164,441

1 In 2019, the Group changed its accounting policy of property valuation and transitioned to cost model with respect to hospitals, clinics and office buildings. Refer to Note 3.

The Financial Statements on pages 129 to 179 were approved by the Board of Directors of Georgia Healthcare Group PLC on 7 April 2020 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
7 April 2020

Company registration number: 09752452

The accompanying notes on pages 136 to 179 form an integral part of these consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December (thousands of Georgian Lari)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Healthcare services revenue	23	**315,042**	291,069
Revenue from pharma	23	**570,836**	501,090
Net insurance premiums earned	24	**74,680**	54,147
Revenue		**960,558**	846,306
Cost of healthcare services	25	**(178,239)**	(155,926)
Cost of sales of pharmaceuticals	25	**(424,814)**	(386,152)
Cost of insurance services and agents' commissions	26	**(49,940)**	(35,627)
Costs of services		**(652,993)**	(577,705)
Gross profit		**307,565**	268,601
Other operating income	27	**18,930**	18,120
Salaries and other employee benefits	28	**(94,510)**	(84,509)
General and administrative expenses	29	**(41,991)**	(54,436)
Impairment of healthcare services, insurance premiums and other receivables	30	**(4,322)**	(4,448)
Other operating expenses	31	**(10,132)**	(11,054)
		(150,955)	(154,447)
EBITDA		**175,540**	132,274
Depreciation and amortisation	10, 11, 12	**(54,972)**	(33,883)
Interest income	32	**1,628**	1,139
Interest expense	11, 32	**(48,034)**	(39,315)
Net losses from foreign currencies and cost of currency derivatives		**(9,973)**	(4,173)
Net non-recurring expense	33	**(1,053)**	(2,187)
Profit before income tax expense		**63,136**	53,855
Income tax expense	13	**(1,586)**	(616)
Profit for the year		**61,550**	53,239
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(59)**	–
Total comprehensive income for the year		**61,491**	53,239
Profit for the year attributable to:			
– shareholders of the Company		**40,149**	34,434
– non-controlling interests		**21,401**	18,805
Total comprehensive income for the year attributable to:			
– shareholders of the Company		**40,090**	34,434
– non-controlling interests		**21,401**	18,805
Earnings per share (Profit for the year):			
– basic earnings per share	22	**0.31**	0.27
– diluted earnings per share	22	**0.30**	0.26
Earnings per share (Total comprehensive income):			
– basic earnings per share	22	**0.31**	0.27
– diluted earnings per share	22	**0.30**	0.26

The accompanying notes on pages 136 to 179 form an integral part of these consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December (thousands of Georgian Lari)

	Notes	Attributable to the shareholders of the Company							
		Share capital	Treasury share	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
31 December 2017		4,784	(134)	1,708	(26,866)	504,192	483,684	64,716	548,400
Effect from adoption of IFRS 9	3	–	–	–	–	(6,535)	(6,535)	(492)	(7,027)
Effect of transition to cost model of property valuation	3	–	–	–	(15,644)	–	(15,644)	(753)	(16,397)
1 January 2018		4,784	(134)	1,708	(42,510)	497,657	461,505	63,471	524,976
Profit for the year		–	–	–	–	34,434	34,434	18,805	53,239
Total comprehensive income		–	–	–		34,434	34,434	18,805	53,239
Non-controlling interests arising from business combinations		–	–	–	–	–	–	516	516
Acquisition of additional interest in existing subsidiaries	22	–	–	–	(6,469)	–	(6,469)	(3,789)	(10,258)
Purchase of treasury shares	22	–	–	(3,055)	–	–	(3,055)	–	(3,055)
Dividends declared to non-controlling interests by subsidiary		–	–	–	–	–	–	(10,791)	(10,791)
Dilution of non-controlling interest		–	–	–	–	–	–	(2,128)	(2,128)
Share-based compensation	34	–	–	6,135	–	–	6,135	–	6,135
31 December 2018 (restated)		4,784	(134)	4,788	(48,979)	532,091	492,550	66,084	558,634

		Attributable to the shareholders of the Company							
		Share capital	**Treasury share**	**Additional paid-in capital**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
31 December 2018		**4,784**	**(134)**	**4,788**	**(48,979)**	**532,091**	**492,550**	**66,084**	**558,634**
Profit for the year		**–**	**–**	**–**	**–**	**40,149**	**40,149**	**21,401**	**61,550**
Other comprehensive income		**–**	**–**	**–**	**(59)**	**–**	**(59)**	**–**	**(59)**
Total comprehensive income		**–**	**–**	**–**	**(59)**	**40,149**	**40,090**	**21,401**	**61,491**
Acquisition of additional interest in existing subsidiaries	22	**–**	**–**	**–**	**1,364**	**–**	**1,364**	**(9,018)**	**(7,654)**
Acquisition of additional interest in existing subsidiaries by non-controlling shareholders	22	**–**	**–**	**–**	**–**	**–**	**–**	**171**	**171**
Dilution of interests in subsidiaries	22	**–**	**–**	**–**	**–**	**–**	**–**	**1,035**	**1,035**
Dividends declared to shareholders of the Company		**–**	**–**	**–**	**–**	**(6,853)**	**(6,853)**	**–**	**(6,853)**
Dividends declared to non-controlling shareholders by subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**(8,298)**	**(8,298)**
Purchase of treasury shares		**–**	**–**	**(3,230)**	**–**	**–**	**(3,230)**	**–**	**(3,230)**
Share-based compensation	34	**–**	**–**	**6,978**	**–**	**–**	**6,978**	**–**	**6,978**
31 December 2019		**4,784**	**(134)**	**8,536**	**(47,674)**	**565,387**	**530,899**	**71,375**	**602,274**

The accompanying notes on pages 136 to 179 form an integral part of these consolidated Financial Statements.

Consolidated Statement of Cash Flows
(Thousands of Georgian Lari unless otherwise stated)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax expense		**63,136**	53,855
Adjustments for:			
Depreciation and amortisation		**54,972**	33,883
Interest income		**(1,628)**	(1,139)
Interest expense		**48,034**	39,315
Net losses from foreign currencies		**8,577**	2,179
Share-based compensation expense		**5,951**	5,168
Impairment of Healthcare Services, Sales of Pharmaceuticals, Insurance Premiums and Other Receivables		**4,322**	4,448
Increase in receivables from healthcare services, net of IFRS 9 impact		**(23,371)**	(11,432)
Decrease/(Increase) in receivables from sales of pharmaceuticals		**2,932**	(2,134)
Increase in insurance premiums receivable		**(3,249)**	(3,410)
Increase in inventories		**(28,298)**	(14,315)
Increase/(decrease) in accounts payable (excluding payable for purchase of property and equipment)		**23,705**	(3,800)
Increase in insurance contract liabilities		**2,945**	1,591
Increase in accruals for employee compensation		**849**	4,671
Changes in other assets and liabilities		**(11,927)**	(8,460)
Net cash flows from operating activities before income tax		**146,950**	100,420
Income tax paid		**(429)**	(840)
Net cash flows from operating activities		**146,521**	99,580
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired		**(5,224)**	(16,626)
Acquisition of additional interest in existing subsidiaries		**(877)**	–
Purchase of property and equipment		**(29,809)**	(60,986)
Purchase of intangible assets		**(12,169)**	(10,999)
Loans acquired		**(1,172)**	–
Interest income received		**57**	1,112
Investment in derivative financial instruments		**(441)**	–
Withdrawals and redemptions of amounts due from credit institutions		**9,858**	4,384
Placements of amounts due from credit institutions		**(12,245)**	(4,094)
Proceeds from sale of property and equipment		**4,075**	1,862
Net cash used in investing activities		**(47,947)**	(85,347)
Cash flows from financing activities			
Proceeds from debt securities issued	35	**32,250**	–
Repurchase of debt securities issued	35	**(30,300)**	–
Proceeds from borrowings	35	**113,350**	83,241
Repayment of borrowings	35	**(150,072)**	(61,818)
Lease liabilities paid, principal		**(15,651)**	(736)
Lease liabilities paid, interest		**(5,669)**	–
Purchase of treasury shares		**(3,230)**	(3,055)
Dividends paid to shareholders of the Group		**(6,952)**	–
Dividends paid to non-controlling interests		**(8,561)**	(9,801)
Interest expense paid		**(39,541)**	(34,748)
Net cash flows from financing activities		**(114,376)**	(26,917)
Effect of exchange rates changes on cash and cash equivalents		**(1,935)**	(2)
Net decrease in cash and cash equivalents		**(17,737)**	(12,686)
Cash and cash equivalents, beginning	6	**36,154**	48,840
Cash and cash equivalents, end	6	**18,417**	36,154

The accompanying notes on pages 136 to 179 form an integral part of these consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Thousands of Georgian Lari unless otherwise stated)

1. Background

As at 31 December 2019 and 31 December 2018, the ultimate parent of Georgia Healthcare Group PLC ("the Company") and its subsidiaries (together referred to as "GHG" or "the Group") was Georgia Capital PLC ("GCAP"), incorporated in London, England. GCAP's registered legal address is 84 Brook Street, London, W1K 5EH, England. GCAP registration number is 10852406. GHG's results are consolidated as part of GCAP's Financial Statements.

The Group's healthcare services businesses provide medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout Georgia. Its Medical Insurance business offers a wide range of medical insurance products, including personal accident, term life insurance products bundled with medical insurance and travel insurance policies to corporate and retail clients. The Group's pharmacy and distribution subsidiary, which was acquired in May 2016 and was expanded with JSC ABC Pharmacy acquisition in 2017, offers a wide range of medicines as well as para-pharmacy products.

The legal address of the Company is No. 84 Brook Street, London W1K 5EH, United Kingdom. The Company registration number is 09752452.

As at 31 December 2019 and 31 December 2018, the following shareholders owned more than 3% of the total outstanding shares of the Group. Other shareholders individually owned less than 3% of the outstanding shares.

Shareholder	**31 December 2019**	31 December 2018
Georgia Capital PLC	**71%**	57%
Wellington Management Company	**5%**	7%
T Rowe LTD	**4%**	6%
BGEO Group PLC	**–**	–
Others	**20%**	30%
Total	**100%**	100%

The Group included the following subsidiaries and associates incorporated in Georgia:

Subsidiary	Ownership/Voting **31 December 2019**	Ownership/Voting 31 December 2018	Industry	Date of incorporation	Date of acquisition	Legal address
JSC Georgia Healthcare Group	**100%**	100%	Healthcare	29-Apr-15	Not Applicable	#142, A. Beliashvili Str, Tbilisi
JSC GEPHA	**67%**	67%	Pharmacy and Distribution	19-Oct-95	4-May-16	#142, A. Beliashvili Str, Tbilisi
LLC ABC Pharmalogistics	**67%**	67%	Pharmacy and Distribution	24-Feb-04	6-Jan-17	Peikrebi Str. 14a, Tbilisi, Georgia
LLC ABC Pharmacia (Armenia)	**67%**	67%	Pharmacy and Distribution	28-Dec-13	6-Jan-17	Kievyan Str. 2/8, Erevan, Armenia
JSC Insurance Company Imedi L	**100%**	100%	Insurance	11-Aug-98	31-Jul-14	Anna Politkovskaia Str. 9, Tbilisi, Georgia
JSC Evex Hospitals*	**100%**	100%	Healthcare	1-Aug-14	1-Aug-14	#142, A. Beliashvili Str, Tbilisi
GNCo	**50%**	50%	Healthcare	4-Jun-01	5-Aug-15	Chavchavadze Ave. 16, Tbilisi, Georgia
LLC Nefrology Development Clinic Centre	**40%**	40%	Healthcare	28-Sep-10	5-Aug-15	Tsinandali Str. 9, Tbilisi, Georgia
High Technology Medical Centre, University Clinic	**50%**	50%	Healthcare	16-Apr-99	5-Aug-15	Tsinandali Str. 9, Tbilisi, Georgia
LLC Regional Hospital	**99.8%**	99.8%	Healthcare	12-Jan-12	30-Jun-15	Kavtaradze Str. 23, Tbilisi, Georgia
LLC Evex-Logistics	**100%**	100%	Healthcare	13-Feb-15	Not Applicable	#142, A. Beliashvili Str, Tbilisi
LLC Referral Centre of Pathology**	**–**	100%	Healthcare	29-Dec-14	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	**67%**	67%	Healthcare	5-May-03	29-Nov-11	Djavakhishvili Str. 85, Kutaisi, Georgia
LLC Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia	**67%**	67%	Healthcare	15-Oct-04	29-Nov-11	A Djavakhishvili Str. 83A, Kutaisi, Georgia
NCLE Evex Learning Centre	**100%**	100%	Other	20-Dec-13	20-Dec-13	Javakhishvili Str. 83a, Tbilisi, Georgia
LLC Emergency Service*****	**85%**	100%	Healthcare	18-Jun-13	1-Mar-15	U. Chkeidze Str. 10, Tbilisi, Georgia
JSC Patgeo	**100%**	100%	Healthcare	13-Jan-10	1-Aug-16	Mukhiani, II mcr. District, Building 22, 1a, Tbilisi, Georgia
JSC Pediatry	**76%**	76%	Healthcare	5-Sep-03	6-Jul-16	U. Chkeidze Str. 10, Tbilisi, Georgia
LLC Evex-Collection**	**–**	100%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC New Clinic	**100%**	100%	Healthcare	3-Jan-17	20-Jul-17	#142, A. Beliashvili Str, Tbilisi

1. Background continued

Subsidiary	Ownership/Voting 31 December 2019	Ownership/Voting 31 December 2018	Industry	Date of incorporation	Date of acquisition	Legal address
JSC Evex Clinics*	**100%**	–	Healthcare	1-Apr-19	Not Applicable	#142, A. Beliashvili Str, Tbilisi
LLC Alliance Med	**100%**	100%	Healthcare	7-Jul-15	20-Jul-17	#142, A. Beliashvili Str, Tbilisi
JSC Polyclinic Vere	**97.8%**	97.8%	Healthcare	22-Nov-13	25-Dec-17	Kiacheli Str. 18-20, Tbilisi, Georgia
LLC New Dent****	**75%**	N/A	Healthcare	24-Dec-18	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Tskaltubo Regional Hospital	**67%**	67%	Healthcare	29-Sep-99	29-Nov-11	Eristavi str. 16, Tskhaltubo, Georgia
JSC Mega-Lab***	**92%**	100%	Healthcare	6-Jun-17	Not Applicable	Petre Kavtaradze Str. 23, Tbilisi Georgia
JSC Vabaco	**67%**	67%	Software Development	9-Sep-13	28-Sep-18	Bochorishvili Str. 37, Tbilisi, Georgia

Associate	Ownership/Voting 31 December 2019	Ownership/Voting 31 December 2018	Industry	Date of incorporation	Date of acquisition	Legal address
LLC 5th Clinical Hospital	**35%**	35%	Healthcare	16-Sep-99	4-May-16	Temka, XI mcr. Block 1, N 1/47, Tbilisi, Georgia
NPO Healthcare Association	**25%**	25%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 27b, Tbilisi, Georgia
NPO Georgian Medical Tourism Council****	**28.6%**	–	Healthcare	16-May-19	Not Applicable	I-II floor, house N10, N 13, b. N1 almond Gardens Street, tskneti, Vake district, Tbilisi

* Starting from 2019, the Group has updated its business structure. The healthcare services business was divided into two segments: clinics, which include polyclinics and community clinics; and hospitals which include referral hospitals. As a result of this demerger, JSC Evex Medical Corporation was renamed to JSC Evex Hospitals. New legal entity, JSC Evex Clinics was formed and it operates as separate business line.

** Subsidiaries were merged with JSC Medical Corporation EVEX in 2019 (the Group purchased non-controlling interest in JSC St. Nicholas Surgery Clinic, and it became 100% shareholder of the entity before the merger).

*** In 2019, 8.025% shareholding interest with book value of GEL 1,035 was transferred to minority shareholder in exchange for acquisition of laboratory information management system ("LIMS") together with supporting technology and applicable licenses.

**** The entities were established in 2019. Establishment of New Dent resulted in injection of GEL 159 equity by non-controlling interest shareholder.

***** LLC Catastrophe Medicine Paediatric Centre was merged with LLC Emergency Service and renamed as LLC Emergency Service in November 2019.

Material partly owned subsidiaries

The following subsidiary has material non-controlling interest:

	2019 Ownership rights held by non-controlling interests, %	**2019** Profit allocated to non-controlling interests during the year	**2019** Dividends paid to non-controlling interests during the year
JSC GEPHA	**33**	**16,343**	**8,415**

	2018 Ownership rights held by non-controlling interests, %	2018 Profit allocated to non-controlling interests during the year	2018 Dividends paid to non-controlling interests during the year
JSC GEPHA	33	14,978	9,801

JSC GEPHA's accumulated non-controlling interest balance is zero due to the put option (Note 22).

The summarised financial information of these subsidiaries is presented below. This information is based on amounts before inter-company eliminations.

JSC GEPHA	**31 December 2019**	31 December 2018
Total assets	**396,078**	285,477
Total liabilities	**240,241**	154,331
Equity	**155,837**	131,146

JSC GEPHA	**For the year ended 31 December 2019**	For the year ended 31 December 2018
Revenue	**614,675**	518,578
Total comprehensive income for the year	**51,005**	45,389
Net cash flows from operating activities	**52,897**	32,755
Net cash flows from investing activities	**(13,095)**	4,967
Net cash used in financing activities	**(48,433)**	(31,781)
Net (decrease)/increase in cash and cash equivalents	**(8,631)**	5,941

Notes to Consolidated Financial Statements continued
(Thousands of Georgian Lari unless otherwise stated)

2. Basis of preparation
Basis of preparation
In accordance with the exemption permitted under section 408 of the Companies Act 2006, the standalone income statement of the Company is not presented as part of these accounts.

The Company's and Group's consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC") interpretations endorsed by the European Union ("EU"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below.

The consolidated Financial Statements have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value.

These consolidated Financial Statements have been presented in thousands of Georgian Lari (GEL), except otherwise stated.

Going concern
GHG's Board of Directors undertook an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for a period of at least 12 months from the approval of the Financial Statements. To conclude on going concern, the Board of Directors analysed the Group's business activities and plans and considered operational and market factors, including the COVID-19 impact, risks and opportunities. Further, the Board assessed likely actions from the Government of Georgia and the current status of the financial covenant renegotiation process in response to the COVID-19 pandemic. Stress tests of the Group's forecasts and budgets were undertaken by management and evaluated by the Board. The stress tests included para-pharmacy revenues decrease by 20% from 1 April 2020; clinics business revenues decrease by 25% from 1 April 2020; hospital business revenues from elective care and outpatient services decrease by 25% from 1 April 2020; state further reduces tariffs by 10% on all healthcare services from 1 April 2020; USD-GEL exchange rate goes up to 3.4000 from 2.8677 at year-end 2019; Working capital need increases from 30% to 40% for Hospitals business and from 12% to 15% for Pharmacy and Distribution business from 2020; and additional operating expense of GEL 3 million is needed in 2020. Actions taken by management subsequent to 31 December 2019, in particular those related to COVID-19 pandemic, are disclosed in Note 39. On the basis of this detailed assessment, Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Reclassifications
Due to adoption of IFRS 16, right of use assets balance increased significantly in 2019. The Group reconsidered the presentation of its Financial Statements and for the purpose of more informative presentation, separately presented the right of use assets on the face of the consolidated statement of financial position. The presentation of comparative figures has been adjusted to conform to the presentation of the current period balances:

Consolidated statement of financial position	As previously reported, 2018	Transition to cost model, 2018	Reclassification, 2018	As adjusted, 2018
Property and equipment	698,037	(16,397)	(8,799)	672,841
Right of use assets	–	–	8,799	8,799

Consolidated statement of financial position	As previously reported, 2017	Transition to cost model, 2017	Reclassification, 2017	As adjusted, 2017
Property and equipment	642,859	(16,397)	(8,854)	617,608
Right of use assets	–	–	8,854	8,854

3. Summary of significant accounting policies
Changes in accounting policies
The accounting policies adopted in the preparation of the annual consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated Financial Statements for the year ended 31 December 2018, apart from IAS16 Property and Equipment as presented below.

Basis of consolidation
The consolidated Financial Statements comprise the Financial Statements of GHG and its subsidiaries as at 31 December 2019. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

3. Summary of significant accounting policies continued

Basis of consolidation continued

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in other operating expenses.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9, is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and amounts due from credit institutions that mature within three months from the date of origination, that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and are free from contractual encumbrances.

Receivables from healthcare services; receivables from sales of pharmaceuticals

Receivables from healthcare services and receivables from sales of pharmaceuticals are recognised initially at the transaction price deemed to be fair value at origination date. They are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The carrying value of healthcare receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated profit or loss. Receivables from the State are due within 30 working days upon approval of invoices. Invoice review and approval process takes up to 60 working days according to Georgian legislation. Payment terms for parties other than the State are negotiated individually and range between 30 to 180 calendar days.

Financial assets

Financial assets in the scope of IFRS 9 are classified either as measured at fair value or measured at amortised cost, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

The classification depends on the purpose for which the investments were acquired or originated.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These investments are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities), and of allocating the interest income or interest expense over the relevant period.

As part of its risk management, the Group uses foreign exchange option and forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from the derivative contracts are included in the consolidated profit or loss in net gains/ (losses) from foreign currencies.

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Allowances for impairment of Financial Statements continued

between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in the consolidated profit or loss.

Carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

Derecognition of financial instruments

Financial assets

A financial asset (or, if applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the following conditions are met:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its right to receive cash flows from the asset, or retained the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third-party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset that is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Borrowings

A borrowing is derecognised when the obligation under the liability is discharged or cancelled or expires and if its terms are substantially modified.

Offsetting

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation. The Group has not offset any of its assets and liabilities or income and expenses.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance premiums receivables

Insurance premiums receivable are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated profit or loss.

Insurance contract liabilities

The unearned premium reserve ("UPR") is recognised when contracts are entered into and premiums are charged and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date, the carrying amount of UPR is calculated on active policies based on the insurance period and time until the expiration date of each insurance policy.

The Group reviews its unexpired risk based on the historical performance of separate business lines to determine the overall change in claims reported but not settled ("RBNS") and claims incurred but not reported yet ("IBNR"). The change of UPR, RBNS and IBNR are recognised in the consolidated profit or loss by setting up a provision for premium deficiency.

Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalised costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortised on a straight-line basis over the life of the contract.

3. Summary of significant accounting policies continued

Fair value measurement

At each reporting date, the Group revalues its derivative financial instruments. Fair values of financial instruments measured at amortised cost are disclosed in Note 37.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Property and equipment

Voluntary change in accounting policy

In the second half of 2019, the Group changed its accounting policy with respect to hospitals and clinics and office buildings. The Group now applies the cost model, where assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change in policy, the Group applied the revaluation model, where hospitals and clinics and office buildings were carried at the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Hospitals and clinics category comprise buildings and related land where referral hospitals, community hospitals and ambulatory clinics are placed.

The Group believes that the cost model provides more reliable and more meaningful presentation for investors because it enhances comparability for the investors as the application of the cost model is a market practice across the industry and it more closely aligns the accounting with the business model around these asset categories.

The cost model has been applied by restating each of the affected consolidated financial statement line items for the prior periods, as follows:

	31 December 2019	31 December 2018	1 January 2018
Assets			
Property and equipment	**(16,397)**	(16,397)	(16,397)
Total Assets	**(16,397)**	(16,397)	(16,397)
Equity			
Other reserves	**(15,644)**	(15,644)	(15,644)
Non-controlling interest	**(753)**	(753)	(753)
Total Equity	**(16,397)**	(16,397)	(16,397)

The change in accounting policy of office buildings and service centres did not have a material impact on the Group's consolidated income statement for the years ended 31 December 2019 and 2018.

As at 31 December 2019, Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying values of property and equipment classes carried at cost are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated profit or loss as other operating expense.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	100
Hospitals and clinics	100
Leasehold improvements	10
Furniture and fixtures	5-10
Medical equipment	5-10
Computers	5
Motor vehicles	5

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Property and equipment continued

The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each financial year end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation. An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated profit or loss in the period the asset is derecognised.

An asset under construction comprises costs directly related to construction of property and equipment, including an appropriate allocation of directly attributable variable and fixed overheads that are required to bring an asset to location and position necessary for intended use by the management. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use.

Leasehold improvements are depreciated over the shorter of ten years or the life of the related leased asset. The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each financial year end.

Hedge accounting

The Group has adopted fair value hedge accounting in accordance with IFRS 9 for foreign exchange component of two of its fixed assets. Due to a strong correlation between real estate prices in Lari terms and US$ – GEL exchange rates published by the National Bank of Georgia, holding other factors constant, we designated US$ denominated borrowings as a hedging instrument and the foreign exchange component of the fixed asset price change as the hedged item. The Group continues to assess hedge effectiveness on a quarterly basis.

If hedge effectiveness conditions will hold and the hedge is found to be effective any increase (decrease) in the value of hedged real estate caused by changes in US$ exchange rate will be offset by an equivalent increase (decrease) of US$ denominated borrowing. If the hedge is found to be partially ineffective, to the extent these amounts differ, a net amount is recognised in profit or loss, in net (losses)/gains from foreign currencies. The recognition of the latter difference is commonly referred to as the measurement of hedge ineffectiveness. As at 31 December 2019, fair value of financial instruments designated as hedging instruments equalled GEL 16,934 (2018: GEL 15,307).

Investments in subsidiaries

For the purposes of parent Company Financial Statements investments in subsidiaries are carried at cost less any provision for impairment. Dividends from subsidiaries are recognised in the parent Company Financial Statements when the parent's right to receive the dividend is established.

Investment in associates

The Group's investment in its associate is accounted for using the equity method.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The Financial Statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the statement of profit or loss. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Inventory

Inventory comprises medical supplies and non-medical supplies and is valued at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis in the healthcare services segment and first in first out basis (FIFO) in the pharma segment and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated profit or loss when the borrowings are derecognised as well as through the amortisation process.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of such asset. All other borrowing costs are expensed in the year in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3. Summary of significant accounting policies continued

Taxation

The current income tax expense is calculated in accordance with the regulations in force in Georgia. Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of general and administrative expenses.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of such assets of between four to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods for intangible assets with finite useful lives are reviewed at least at each financial year end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as an asset but only when it is virtually certain that it will be received.

Share-based compensation transactions

Senior executives of the Group receive share-based compensation, whereby employees render services as consideration for the equity instruments of GHG. Share-based compensation plans announced by GHG represent equity-settled transactions.

Equity

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date of the transaction. The cost of equity-settled transactions is recognised together with the corresponding increase in additional paid-in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated profit or loss charge for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed by the Board to shareholders before the reporting date or proposed by the Board to shareholders or declared after the reporting date but before the Financial Statements are authorised for issue.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Income and expense recognition

Interest income

For all financial assets measured at amortised cost, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

Healthcare services revenue and revenue from pharma

The Group recognises revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Healthcare services that the Group provides to the clients are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Healthcare services revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and include the following components:

- Healthcare services revenue from State – The Group recognises the revenue from the individuals who are insured under the State programmes by reference to the stage of completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare services revenue from insurance companies – The Group recognises revenue from the individuals who are insured by various insurance companies by reference to the stage of completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare services revenue from out-of-pocket and other – The Group recognises out-of-pocket and other revenue by reference to the stage of completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognised in the accounting period in which the services are rendered and are calculated according to contractual tariffs.

Revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the State). Invoice corrections are estimated at contract inception. The estimation of potential future corrections and rebates is calculated based on statistical average correction rate which is applied to gross amount of invoices that were not approved by the State as at reporting date. The Group's gross revenue (before deducting its corrections and rebates) is based on the official invoices submitted to and formally accepted by the customers (State, insurance companies, provider clinics and individuals) and accruals for already performed but not yet billed service.

Revenue from pharma comprises the fair value of the consideration received or receivable both from wholesale and retail sales and medicine exchange transactions. The pharma business sometimes sells medicine in barter transactions. The consideration received is assessed with reference to its actual wholesale price which is deemed fair value of consideration received.

Customer loyalty programme points accumulated in the Pharmacy and Distribution business are treated as deferred revenue and recognised in revenues gradually as they are earned, as loyalty programme offered within the Pharmacy and Distribution business gives rise to a separate performance obligation. At reach reporting date the Group estimates portion of accumulated points that is expected to be utilised by customers based on statistical data. Those points are treated as a liability in the statement of financial position and are only recognised in revenues when points are used by customers.

Net insurance premiums earned

Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business commenced during the period and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a period that relate to periods after the reporting date. Unearned premiums are computed on monthly pro rata basis.

Unearned premium reserve

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the unearned premium reserve is taken to the consolidated profit or loss in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Cost of healthcare services and cost of sales of pharmaceuticals

Cost of healthcare services represents expenses directly related to the generation of revenue from healthcare services rendered, including but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs. Cost of sales of pharmaceuticals represents cost of sold medicine calculated using FIFO (first in first out method).

Net claims incurred

Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

EBITDA

The Group separately presents EBITDA on the face of statement of comprehensive income. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's Profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income.

3. Summary of significant accounting policies continued

Net non-recurring (expense)/income

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as income or expense triggered by or originated from an unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Foreign currency translation

The consolidated Financial Statements are presented in Georgian Lari, which is the Group's presentation currency and functional currency of all the Group's components. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official exchange rates declared by the National Bank of Georgia ("NBG") and effective as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated profit or loss within net losses from foreign currencies.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in net losses from foreign currencies in the consolidated profit or loss. The official NBG exchange rates at 31 December 2019 and 31 December 2018 were 2.8677 and 2.6766 Georgian Lari to 1 US dollar, respectively.

Financial instruments

(a) Classification and measurement

Classification and measurement requirements of IFRS 9 have no significant impact on GHG's statement of financial position or equity on applying the classification. The Group continues measuring at amortised cost all financial assets and liabilities except for derivative financial instruments and payables for share acquisitions that are measured at fair value. These items include: cash and cash equivalents, amounts due from credit institutions, pharmacy and distribution and healthcare receivables, loans issued/acquired, borrowings, debt securities issued and accounts payable.

Loans as well as healthcare and pharma receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. The Group applies the simplified approach and records lifetime expected losses on all receivables, loans and contract assets.

The primary impact of adoption of the new impairment methodology was on the following two accounts: allowance on receivables from healthcare services, and allowance on receivables from sales of pharmaceuticals.

Cash and cash equivalents and Amounts due from credit institutions

Due to the short-term and highly liquid nature of these financial assets, the Group has assessed corresponding credit losses to be immaterial. Therefore, no impairment was recognised for Cash and cash equivalents and Amounts due from credit institutions under IFRS 9.

Healthcare and pharma receivables

In applying the simplified impairment approach under IFRS 9, the Group implemented four different assessment methods based on type of receivables:

1. Individual assessment for Receivables from Government;
2. Individual assessment for all other material receivables (with a balance above GEL 250 thousand);
3. Individual assessment for Barter receivables in the Pharmacy and Distribution business; and
4. Collective assessment for all other receivables. Receivables with shared credit risk characteristics are combined in different portfolios for collective assessment. The Group has identified the following main types of portfolios (with a balance less than GEL 250 thousand): receivables from healthcare services (mainly receivables from individuals), receivables from sale of pharmaceuticals, rent receivables and other receivables.

Notes to Consolidated Financial Statements continued
(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued
Financial Instruments continued
(b) Impairment continued
Receivables from government
JSC Medical Corporation Evex ("Evex") participates in the Georgian State insurance programme – Universal Health Care Programme ("UHC"). As a result, a significant part of receivables from healthcare services (approximately 70%) is due from the Georgian Government and municipal authorities. On the other hand, JSC GEPHA ("GEPHA") participates in UHC's tenders, supplying medicaments to different clinics. In addition, the Georgian Government co-pays the price of certain medicines to individuals covered by the UHC. Therefore, a considerable part of receivables from sales of pharmaceuticals (approximately 15%) are also due from the Georgian Government. Receivables from Government have unique credit characteristics, which are different from those of any other financial instrument currently owned by the Group. Considering this fact and materiality of corresponding balance, the Group has concluded that receivables from Government should be considered for impairment on an individual basis, separately from all other financial instruments.

The Group uses credit ratings published by international agencies, such as Standard & Poor's ("S&P") or Moody's, in order to assess credit quality of state receivables. Similarly, the probabilities of default to the respective category of credit rating assigned to Georgia based on reports by the same international agencies are used as a reasonable approximation of probability of default ("PD") for receivables from government. PD for receivables from Government was based on the country's risk rating. The Group will reconsider the PD rate used in the impairment calculations at each reporting date.

Individually assessed debtors
For debtors with a receivable balance above GEL 250 thousand, the Group considers each case individually and takes into account various factors and individual circumstances. This process consists of two main stages:
1) Counterparty's financial position is assessed based on: a) financial results and ratios (when available); b) average receivable overdue days to the Group; and c) any other non-financial information available to the Group, such as any news relevant to market sector in which particular debtor operates, management inquiries, etc.
2) Based on this analysis, counterparty is then categorised by the Group's management for credit risk assessment and moved to collective assessment. Each credit category is assigned with corresponding expected credit loss rate, determined based on experience, management's professional judgment and expectations for the future. Assessments are performed on a quarterly basis. Macro-adjustments are incorporated based on regression results and dependency factor on GDP growth. Financial ratios in this model are updated on an annual basis, after/if audited financial statements of the counterparty are published, while average overdue days, non-financial information and expectations for the future are updated monthly.

Barter receivables in Pharmacy and Distribution business
GEPHA participates in barter transactions by supplying goods and services in exchange for receiving other goods and services from the counterparty. Both receivables and payables arise as a result of these transactions, but settlement is made on a net basis as required by corresponding contracts. Therefore, in assessing barter receivables for impairment, the Group takes into account only net exposure from any individual counterparty, i.e. part of receivables in excess of payables to the same counterparty. These exposures are then assessed for impairment under IFRS 9 in the same manner as described in the preceding section for individually assessed debtors.

Collective assessment
For the purposes of implementing collective impairment assessment of receivables from insurance companies and other large counterparty entities under IFRS 9, debtor portfolios are segregated into distinct risk buckets based on number of overdue days. In defining 180 days as a cut-off period for default definition, the Group considered actual payment history of insurance companies and other large counterparty entities. Overdue of three to six months was usual among creditworthy counterparties, while more than six months period marked the sign for financial trouble. The statistics were based on the Group's internal data. Five separate risk buckets were implemented as presented below:

Overdue Days	Category	Description
0-30	AA	Excellent
31-60	A	Good
61-90	B	Normal
91-180	C	Bad
181+	D	Default

As for collective impairment assessment of receivables from individuals and other small counterparties, the Group has five separate risk buckets as presented below:

Overdue Days	Category	Description
0-29	A	Good
30-59	B	Normal
60-89	C	Bad
90+	D	Default

IFRS 9 allows an entity to use a simplified "provision matrices" for calculating expected losses as a practical expedient (e.g. for receivables), consistent with the general principles for measuring expected losses. However, IFRS 9 also requires incorporating forward-looking information in the entity's impairment framework.

3. Summary of significant accounting policies continued

Financial Instruments continued

(b) Impairment continued

Collective assessment continued

The Group has decided to use this option and utilise provision matrices in estimation of ECLs in case of collective assessment of impairment. As mentioned above, the Group adopted the simplified approach for receivables and directly considers lifetime losses for the entire portfolio, i.e. expected lifetime credit losses will be recognised for the entire portfolio regardless whether or not significant increase in credit risk occurred since initial recognition. A migration matrix was used as a base for determination of probability of defaults by categories. Exposure at default was defined as the outstanding balance of debtor exposure.

Forward-looking component

Additionally, the Group incorporated macroeconomic forward-looking information in the analysis to determine adjusted default probabilities by categories. Considering the fact that debtors in healthcare service and Pharmacy and Distribution businesses mainly consist of individuals or small entities from widely diverse regions from Georgia, the Group believes, that country-wide economic performance measure is a good fit for the purposes of expected performance evaluation of the individually small debtors from all over the country. As such, real GDP growth rate was assessed to be the best macro-economic indicator on two arguments:

1) GDP growth rate is the single most important economy performance indicator that is closely tied to the actual wellbeing of citizens and small entities; and
2) GDP growth rate is easily obtainable and has both, consistent historical records as well as state forecast for coming years enabling to incorporate in the expected credit loss modelling. The Group regressed GDP growth rates over the past two years on impairment rates (which is the same as Probability of Default ("PD") assuming 100% Loss Given Default ("LGD")) and found a statistically significant dependency factor.

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 did not have a significant impact on the Group's Financial Statements.

Write-off policy

The Group writes off financial assets when it becomes aware that there is no reasonable expectation of recovery based on the pre-determined indicators. These indicators are the bankruptcy of the counterparty, court decision or more than two years of overdue period. Any receivable that has not been ruled by the court to be uncollectible, are continued to be enforced by the Company regardless of the number of overdue days. In accordance with Georgian legislation, due to statute of limitation, GHG is unable to enforce collection of receivables if three years from the date of last written reminder to the counterparty have passed.

The Group writes-off financial liabilities when the statute of limitation expires. Such write-offs are recognised in other operating income.

New and amended standards and interpretations

The standards and interpretations relevant to the Group that are issued up to the date of issuance of the Group's Financial Statements are disclosed below. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated Financial Statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The effect of adoption IFRS 16 is as follows:

	Amount, GEL
Assets	
Property and Equipment	76,172
Total assets	76,172
Liabilities	
Lease liabilities	76,172
Total liabilities	76,172

Impact on the statement of profit or loss (increase/(decrease)) for the year ended 31 December 2019:

	Amount, GEL
Occupancy and rent (included in general and administrative expenses)	21,235
Other operating income	249
Other operating expense	(164)
EBITDA	21,320
Depreciations and amortisation	(18,607)
Interest expense	(5,714)
Net gains (losses) from foreign currencies	(4,579)
Profit for the period	(7,580)
Attributable to:	
– shareholders of the Company	(5,862)
– non-controlling interests	(1,718)

Impact on the statement of cash flows (increase/(decrease)) for the year ended 31 December 2019:

	Amount, GEL
Net cash flows from operating activities	21,320
Net cash flows from financing activities	(21,320)

The difference between operating lease commitments as of 31 December 2018 and IFRS 16 adoption impact results from short-term and low-value leases on which the Group has applied exemptions detailed above.

There is no material impact on other comprehensive income. The basic and diluted EPS would have decreased by GEL 0.04 each for the period ended 31 December 2019.

3. Summary of significant accounting policies continued IFRS 16 Leases continued

a) Nature of the effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised, and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases of emergency cars and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group did not restate comparative information upon adoption. Additionally, there were no differences between assets and liabilities to be recognised in opening retained earnings as at the adoption date. As at 1 January 2019:

- Property and equipment of GEL 76,172 were recognised and presented separately in the statement of financial position. Lease assets recognised previously under finance leases of GEL 8,799 and included under Property, plant and equipment were derecognised.
- Finance lease liabilities of GEL 76,172 were recognised.

For the year ended 31 December 2019:

- Depreciation expense increased by GEL 18,607 relating to the depreciation of additional assets recognised.
- General and administrative expenses decreased by GEL 21,235 relating to previous operating leases.
- Interest expense increased by GEL 5,714 relating to the interest expense on additional lease liabilities recognised.
- The Group recognised net loss from foreign currencies of GEL 4,579 relating to revaluation of finance lease liabilities denominated in foreign currencies.
- Cash outflows from operating activities increased by GEL 21,320 and cash outflows from financing activities increased by the same amount, representing the payments for the principal and interest portion of recognised lease liabilities.

b) Summary of new accounting policies set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially recognised at cost and are subsequently measured at fair value, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. As at transition date the Group used the followings incremental borrowings rates by currencies: US dollar: 6.0%; Euro: 4.5%; British Pounds: 5.0%; Georgian Lari: 11.0%.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of emergency cars (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

IFRS 16 Leases continued

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group re-assesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy). The Group analysed its lease contracts and established the following: all contracts, including contracts to lease drug-stores, polyclinics and office spaces, contain either monetary or economic penalties over the entire contract term. In most of the cases, in case of cancellation by the lessor, there is a monetary penalty requiring it to repay the lessee all amounts initially spent on leasehold improvements. In virtually all cases, there is an economic penalty for both parties upon cancellation of a lease contract. For the lessee of a drug-store or polyclinic, the economic penalty is the significant time and effort involved in finding a new location and making leasehold improvements to fit the new location to the specific needs of the drug-store or polyclinic. In case of office space, the economic penalty to the lessee is the significant time, effort and cost related to relocation of an office and its infrastructure. For the lessor, the economic penalty is foregoing a stable relationship with creditworthy lessee and potentially lost income during a vacancy period in which a new tenant is sought. In practical terms, based on the Group's historical statistical information, the above-mentioned monetary and economic penalties translate into stable relationships and lease contracts that are prematurely cancelled in only under 1% of cases. Based on the above consideration, the Group concluded that it is appropriate to define the lease term as the period of the entire contract term, since even if monetary penalties are prescribed only on a portion of lease term, economic penalties apply to the entire contract period.

In case there is an option to extend the lease term and the lessee is reasonably certain to exercise the option, the Group also takes the extension into account while defining the lease term. The Group analysed its contracts and in a number of cases, there was an automatic prolongation of contract in case the contract expired and neither party expressed willingness to cancel. In such cases, contracts prescribed the exact term by which the contract should be extended. The terms by which specific contracts are automatically extended are based on the Group's operation department's judgement of how much more time they are planning to lease property in case the lease term is automatically extended. Therefore, the Group concluded that it is appropriate to define the lease term in this case to include the period over which the contract was automatically extended as this represents the operation department's best estimate of expected use of the leased asset.

Non-refundable taxes related to lease contracts

The Group also considered its approach to value added tax ("VAT") related to lease payments. Since a significant portion of the healthcare business is not subject to VAT, the Group does not a get refund from the State for the VAT paid on lease payments. Therefore, the Group considered whether the non-refundable VAT should be added to monthly lease payments and discounted together with the base amount to form the part of the right of use asset, however after analysing the IFRS literature the Group concluded that it is appropriate to exclude the VAT and account for separately as an expense even though it is non-refundable.

Lease payments

There are some cases when, apart from the contractual fixed payments, there are contractual variable payments as well. In accordance with IFRS 16, lease payments should not include any variable payments that do not depend on either index or rate. For example, if variable rent depends on performance, it should be excluded from lease payments. After analysing its contracts, the Group identified a number of agreements that included payments that related to utilities, marketing and that depended on revenues. Since those payments are variable, and they do not depend on any index or rate, the Group concluded that it is appropriate to exclude them from lease payments.

c) Amounts recognised in the statement of financial position and profit or loss IFRS 16.53

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	Lease liabilities
1 January 2019	**76,172**	**76,172**
Net additions	26,550	26,550
Depreciation expense	(18,607)	–
Interest expense	–	5,714
Net losses from foreign currencies	–	4,579
Payments	–	(21,320)
Other	–	(904)
As at 31 December 2019	**84,115**	**90,791**

3. Summary of significant accounting policies continued

IFRS 16 Leases continued

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated Financial Statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated Financial Statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated Financial Statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated Financial Statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated Financial Statements as the Group does not have long-term interests in its associate and joint venture.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is in the process of assessing the impact of IFRS 17.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated Financial Statements.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated Financial Statements of the Group as there is no transaction where joint control is obtained.

3. Summary of significant accounting policies continued

Standards issued but not yet effective continued

IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated Financial Statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events. An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated Financial Statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated Financial Statements of the Group.

4. Significant Accounting Judgments and Estimates

The preparation of the Financial Statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the period. Although the estimates are based on management's best knowledge and judgement of current facts as at the reporting date, the actual outcome may differ from these estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Goodwill impairment test

Significant accounting judgements and estimates related to goodwill impairment test are presented in Note 12.

Impairment of receivables pharma and healthcare services

The loss allowance for receivables from pharma and healthcare services is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. A key criterion for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (i.e. the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of impairment. If yes, then the proper provision rate is applied, which reflects the credit risk associated with that particular category of debt services. If not, then the respective accounts receivable are assessed collectively, as a good quality, in a total pool for the good credit quality receivables, based on loss given default and the number of days overdue, which practically implies an immaterial amount of overdue days.

For collective assessment purposes, the management judgement is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. Assessments are updated by the Group at each reporting date. Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance for impairment of the healthcare receivables as at 31 December 2019 was GEL 22,215 (2018: GEL 19,189). Refer to Note 9.

Current income tax recognition

The current income tax charge is calculated in accordance with Georgian legislation enacted or substantively enacted by the reporting date. The Group's main business activities are operated under tax on distributed profits regime, meaning that there is no tax on retained earnings starting from 2017 for healthcare and pharma segments and from 2023 for insurance segment. Respective regulatory environment in Georgia is volatile and may give rise to different interpretations. Further details on taxation are disclosed in Note 13.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

4. Significant Accounting Judgments and Estimates continued

Claims reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date (RBNS) and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. The carrying amount of the reserves for claims (RBNS and IBNR) as at 31 December 2019 was GEL 3,437 (2018: GEL 3,253). Refer to Note 16.

5. Segment Information

In 2019 year, the Group broke down the Healthcare Services segment in three sub-segments: Referral Hospitals, Clinics and Diagnostics businesses. The change was implemented in line with the Group's updated business model. Comparative segment information has been restated accordingly. For management purposes, the Group is now organised into five operating segments based on the products, services and target market segment – Referral Hospitals, Clinics, Diagnostics, Pharmacy and Distribution and Medical Insurance. All revenues of the Group result from Georgia, except from an immaterial amount of pharmacy sales in Armenia.

Referral Hospitals represent large hospitals providing inpatient and outpatient medical services, and are owned by the Group throughout the whole Georgian territory.

Clinics represent smaller hospitals providing mainly outpatient medical services, and are owned by the Group throughout the whole Georgian territory.

Diagnostics represent various lab services, rendered by high-technology business equipped with modern machinery.

Medical Insurance comprises a wide range of medical insurance products, including personal accident insurance, term life insurance products bundled with medical insurance and travel insurance policies, which are offered by the Company's wholly owned subsidiary Imedi L.

Pharmacy and Distribution comprises a wide range of drugs and para-pharmacy products which are offered through a chain of well-developed drug-stores by the Company's subsidiary JSC GEPHA.

Management monitors the operating results of each of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as in the table below, is measured in the same manner as profit or loss in the consolidated Financial Statements. Corporate centre costs are allocated to segments.

More than 20% of the Group's revenue is derived from the State. However, management believes that the Government cannot be considered as a single client, because the customers of the Group are the patients that receive medical services and not the counterparties that pay for these services. Therefore, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue in the period ended 31 December 2019 or 31 December 2018.

Selected items from the statement of financial position as at 31 December 2019 and 31 December 2018 by segments are presented below:

	31 December 2019						
	Referral Hospitals	**Clinics**	**Pharmacy and Distribution**	**Medical Insurance**	**Diagnostics**	**Intersegment transactions and consolidation**	**Total**
Assets:							
Property and equipment	**508,906**	**98,065**	**35,161**	**15,054**	**14,472**	**–**	**671,658**
Inventory	**16,461**	**1,270**	**155,075**	**–**	**1,656**	**–**	**174,462**
Liabilities:							
Accounts payable	**44,337**	**7,232**	**110,690**	**–**	**2,810**	**(36,369)**	**128,700**
Lease liabilities	**4,054**	**8,372**	**77,700**	**665**	**–**	**–**	**90,791**

	31 December 2018 (restated)						
	Referral Hospitals	Clinics	Pharmacy and Distribution	Medical Insurance	Diagnostics	Intersegment transactions and consolidation	Total
Assets:							
Property and equipment	526,156	86,284	31,292	15,214	13,895	–	672,841
Inventory	16,978	829	127,924	–	433	–	146,164
Liabilities:							
Accounts payable	43,857	1,986	79,772	–	1,222	(21,745)	105,092
Lease liabilities	–	8,676	–	–	–	–	8,676

5. Segment Information continued

Statement of comprehensive income and selected items from the statement of financial position by segments are presented below:

	Year ended 31 December 2019						
	Referral Hospitals	Clinics	Pharmacy and Distribution	Medical Insurance	Diagnostics	Intersegment transactions and consolidation	Total
Healthcare services revenue	289,031	44,099	–	–	5,071	(23,159)	315,042
Revenue from pharma	–	–	614,675	–	–	(43,839)	570,836
Net insurance premiums earned	–	–	–	75,358	–	(678)	74,680
Revenue	289,031	44,099	614,675	75,358	5,071	(67,676)	960,558
Cost of healthcare services	(169,286)	(24,191)	–	–	(3,818)	19,056	(178,239)
Cost of sales of pharmaceuticals	–	–	(457,820)	–	–	33,006	(424,814)
Cost of insurance services and agents' commissions	–	–	–	(64,110)	–	14,170	(49,940)
Costs of services	(169,286)	(24,191)	(457,820)	(64,110)	(3,818)	66,232	(652,993)
Gross profit	119,745	19,908	156,855	11,248	1,253	(1,444)	307,565
Other operating income	16,757	1,392	5,469	1,476	257	(6,421)	18,930
Salaries and other employee benefits	(31,363)	(7,315)	(51,162)	(5,076)	(957)	1,363	(94,510)
General and administrative expenses	(13,818)	(3,275)	(23,227)	(1,463)	(306)	98	(41,991)
Impairment of healthcare services, insurance premiums and other receivables	(4,152)	(130)	(470)	(481)	15	896	(4,322)
Other operating expenses	(11,899)	(332)	(3,225)	(99)	(86)	5,509	(10,132)
	(61,232)	(11,052)	(78,084)	(7,119)	(1,334)	7,866	(150,955)
EBITDA	75,270	10,248	84,240	5,605	176	1	175,540
Depreciation and amortisation	(27,839)	(6,858)	(18,962)	(1,106)	(207)	–	(54,972)
Interest income	2,236	60	632	1,372	–	(2,672)	1,628
Interest expense	(27,855)	(4,626)	(17,385)	(635)	(200)	2,667	(48,034)
Net (losses)/gains from foreign currencies and currency derivatives	(2,656)	(1,018)	(6,293)	23	(29)	–	(9,973)
Net non-recurring expense	(816)	(100)	(131)	–	(5)	(1)	(1,053)
Profit/(loss) before income tax expense	18,340	(2,294)	42,101	5,259	(265)	(5)	63,136
Income tax expense	–	–	(730)	(856)	–	–	(1,586)
Profit/(loss) for the period	18,340	(2,294)	41,371	4,403	(265)	(5)	61,550

In 2019 and 2018 years the Group did not invest any amount in associates and/or joint ventures. The table below presents additions to property and equipment and intangible assets by segments:

	31 December 2019						
	Referral Hospitals	Clinics	Pharmacy and Distribution	Medical Insurance	Diagnostics	Intersegment transactions and consolidation	Total
Additions to:							
Property and equipment	16,775	5,077	9,524	304	1,823	–	33,503
Intangible Assets	8,892	1,126	508	228	1,480	–	12,234

	31 December 2018						
	Referral Hospitals	Clinics	Pharmacy and Distribution	Medical Insurance	Diagnostics	Intersegment transactions and consolidation	Total
Additions to:							
Property and equipment	49,356	10,892	6,931	9,741	9,221	–	86,141
Intangible Assets	7,310	1,205	797	169	3	–	9,484

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

5. Segment Information continued

	Year ended 31 December 2018						
	Referral Hospitals	Clinics	Pharmacy and Distribution	Medical Insurance	Diagnostics	Intersegment transactions and consolidation	Total
Healthcare services revenue	265,211	37,771	–	–	2,926	(14,839)	291,069
Revenue from pharma	–	–	518,578	–	–	(17,488)	501,090
Net insurance premiums earned	–	–	–	55,112	–	(965)	54,147
Revenue	265,211	37,771	518,578	55,112	2,926	(33,292)	846,306
Cost of healthcare services	(154,151)	(21,450)	–	–	(2,391)	22,066	(155,926)
Cost of sales of pharmaceuticals	–	–	(386,372)	–	–	220	(386,152)
Cost of insurance services and agents' commissions	–	–	–	(45,427)	–	9,800	(35,627)
Costs of services	(154,151)	(21,450)	(386,372)	(45,427)	(2,391)	32,086	(577,705)
Gross profit	111,060	16,321	132,206	9,685	535	(1,206)	268,601
Other operating income	17,626	1,047	2,486	787	202	(4,028)	18,120
Salaries and other employee benefits	(28,322)	(6,623)	(45,925)	(4,434)	(233)	1,028	(84,509)
General and administrative expenses	(13,862)	(3,904)	(35,169)	(1,459)	(313)	271	(54,436)
Impairment of healthcare services, insurance premiums and other receivables	(4,449)	(139)	–	(362)	(44)	546	(4,448)
Other operating expenses	(12,064)	(814)	(1,383)	(166)	(14)	3,387	(11,054)
	(58,697)	(11,480)	(82,477)	(6,421)	(604)	5,232	(154,447)
EBITDA	69,989	5,888	52,215	4,051	133	(2)	132,274
Depreciation and amortisation	(25,483)	(5,106)	(2,352)	(759)	(183)	–	(33,883)
Interest income	4,441	147	33	1,161	–	(4,643)	1,139
Interest expense	(26,710)	(4,080)	(11,957)	(1,140)	(71)	4,643	(39,315)
Net (losses)/gains from foreign currencies and currency derivatives	(1,430)	(34)	(2,923)	215	(1)	–	(4,173)
Net non-recurring expense	(1,488)	180	(859)	–	(20)	–	(2,187)
Profit/(loss) before income tax expense	19,319	(3,005)	34,157	3,528	(142)	(2)	53,855
Income tax expense	(35)	(2)	–	(579)	–	–	(616)
Profit/(loss) for the period	19,284	(3,007)	34,157	2,949	(142)	(2)	53,239

6. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2019	31 December 2018
Current and on-demand accounts with banks	**16,104**	33,823
Cash on hand	**2,313**	2,331
Total cash and cash equivalents	**18,417**	36,154

Cash and cash equivalents of Imedi L on a standalone basis are GEL 2,994 (2018: GEL 1,625). The requirement of the Insurance State Supervision Service Agency of Georgia ("ISSSA") is to maintain a minimum level of cash and cash equivalents at 10% of the total insurance contract liabilities subject to mandatory reserve requirements as defined by the ISSSA regulatory reserve requirement resolution, which as at the reporting date amounts to GEL 887 (2018: GEL 750). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values. The Company's cash and cash equivalents comprise current accounts with banks of GEL 37 (2018: GEL 3,041).

7. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	31 December 2019	31 December 2018
Time deposits with banks, foreign currency	**3,805**	4,746
Time deposits with banks, local currency	**9,783**	7,061
Total amounts due from credit institutions	**13,588**	11,807

As at 31 December 2019, amounts due from credit institutions are represented by short (remaining maturity from reporting date of 1 to 12 months) and medium-term placements with banks and earn annual interest of 4% to 12.8% (2018: 0% to 12.75%).

8. Insurance Premiums Receivable

Insurance premiums receivable comprises:

	31 December 2019	31 December 2018
Insurance premiums receivable from policyholders	**29,764**	26,034
Less – Allowance for impairment (Note 30)	**(2,872)**	(2,391)
Total insurance premiums receivables, net	**26,892**	23,643

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2019 and 31 December 2018.

9. Receivables from Healthcare Services

Receivables from healthcare services comprise:

	31 December 2019	31 December 2018
Receivables from State	**119,725**	97,666
Receivables from individuals and other	**27,184**	22,023
Receivables from insurance companies	**5,518**	6,341
	152,427	126,030
Less – Allowance for impairment	**(22,215)**	(19,189)
Total receivables from healthcare services, net	**130,212**	106,841

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2019 and 31 December 2018.

10. Property and Equipment

The movements in property and equipment were as follows:

	Land and office buildings	Hospitals and clinics	Furniture and fixtures	Computers	Medical equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost									
1 January 2018 (restated)	18,290	404,274	19,621	16,204	183,945	5,544	12,280	327	660,485
Acquisition through business combinations	–	–	20	–	–	–	–	–	20
Additions	607	26,913	6,079	4,883	44,817	1,152	1,679	11	86,141
Disposals	–	–	(258)	(117)	(865)	(300)	(72)	–	(1,612)
Transfers	6,624	(6,624)	–	–	–	–	–	–	–
31 December 2018 (restated)	25,521	424,563	25,462	20,970	227,897	6,396	13,887	338	745,034
Acquisition through business combinations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Additions	**324**	**4,740**	**4,741**	**4,448**	**8,838**	**1,548**	**8,864**	**–**	**33,503**
Disposals	**(2,701)**	**–**	**(629)**	**(312)**	**–**	**(280)**	**(10)**	**(25)**	**(3,957)**
Transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
31 December 2019	**23,144**	**429,303**	**29,574**	**25,106**	**236,735**	**7,664**	**22,741**	**313**	**774,580**

	Land and office buildings	Hospitals and clinics	Furniture and fixtures	Computers	Medical equipment	Motor vehicles	Leasehold improvements	Assets Under construction	Total
Accumulated depreciation									
1 January 2018 (restated)	311	5,976	2,530	4,714	25,776	1,748	1,822	–	42,877
Depreciation charge	186	4,778	2,258	3,866	17,020	1,146	1,337	–	30,591
Disposals	–	(1)	(131)	(106)	(865)	(152)	(20)	–	(1,275)
31 December 2018 (restated)	497	10,753	4,657	8,474	41,931	2,742	3,139	–	72,193
Depreciation charge	255	4,163	2,243	3,660	18,741	1,243	1,399	–	31,704
Disposals	(33)	–	(471)	(209)	–	(257)	(5)	–	(975)
31 December 2019	**719**	**14,916**	**6,429**	**11,925**	**60,672**	**3,728**	**4,533**	**–**	**102,922**
Net book value:									
1 January 2018 (restated)	17,979	398,298	17,091	11,490	158,169	3,796	10,458	327	617,608
31 December 2018 (restated)	25,024	413,810	20,805	12,496	185,966	3,654	10,748	338	672,841
31 December 2019	**22,425**	**414,387**	**23,145**	**13,181**	**176,063**	**3,936**	**18,208**	**313**	**671,658**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

10. Property and Equipment continued

The Group pledges its office and hospital buildings and assets under construction as collateral for its borrowings. The carrying amount of the buildings and assets under construction pledged as at 31 December 2019 was GEL 414,387 (2018: GEL 405,710). In the second half of 2019, the Group changed its accounting policy with respect to hospitals and clinics and office buildings and now applies the cost model, instead of the revaluation model. As a result of this change, GEL 16,397 was credited to the balance of Property and Equipment and was debited to other reserves. Due to the restatement, the Group has presented three statements of financial position. Each of the statements of financial position has been restated to reflect the change.

11. Right of Use Assets and Lease Liabilities

The Group has lease contracts for buildings used in its operations. Leases of buildings generally have lease terms between 1 and 10 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group also has certain leases of machinery with lease terms of 12 months or less and leases of equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. None of the contracts require the Group to maintain any financial ratios. The Group analysed existence of termination options. all contracts, including contracts to lease drugstores, polyclinics and office spaces, contain either monetary or economic penalty over the entire contract term. In most of the cases, there is a monetary penalty for lessor to repay the lessee all the initially spent amounts on leasehold improvements in case of cancellation. In virtually all cases, there is economic penalty for both parties in case of cancellation of lease contracts. For lessee, economic penalties imply significant time and effort for finding a new location and making leasehold improvements to fit the new location to the drug-store or polyclinic specific needs. For lessor, economic penalties imply foregoing stable relationship with creditworthy lessee. In case of office space, economic penalty implies significant time, effort and cost related to relocation of office and its infrastructure. In practical terms, the above-mentioned monetary and economic penalties translate to stable relationship and lease contracts that are prematurely cancelled in only under 1% of cases based on the Group's statistical historical information. The Group analysed existence of variable lease payments. After analysing its contracts, the Group identified several contracts that included payments that related to utilities, marketing and that depended on revenues. Since those payments are variable, and they do not depend on any index or rate, the Group concluded that it is appropriate to exclude them from lease payments. The magnitude of variable lease payments on overall Group level is small and does not exceed 3% of the fixed payments. The table below presents carrying values of right of use assets by operating segments:

	31 December 2019	31 December 2018
Pharmacy and Distribution business	**72,149**	–
Clinics business	**7,551**	8,799
Hospitals business	**3,818**	–
Diagnostics business	**–**	–
Medical Insurance business	**597**	–
Total right of use assets	**84,115**	8,799

The table below presents carrying values of lease liabilities by operating segments:

	31 December 2019	31 December 2018
Pharmacy and Distribution business	**77,700**	–
Clinics business	**8,372**	8,676
Hospitals business	**4,054**	–
Diagnostics business	**–**	–
Medical Insurance business	**665**	–
Total lease liabilities	**90,791**	8,676

For more details, refer to Note 3.

12. Goodwill and other intangible assets

The table below presents carrying values of goodwill by operating segments and other intangible assets:

	Effective annual terminal growth rate	Discount rate applied for impairment test	**31 December 2019**	31 December 2018
Pharmacy and Distribution Goodwill	5%	15.4%	**77,755**	77,755
Referral Hospitals Goodwill	5%	15.0%	**27,857**	27,857
Clinics Goodwill	5%	14.8%	**5,710**	5,710
Medical Insurance Goodwill	5%	16.0%	**3,462**	3,462
Total Goodwill			**114,784**	114,784
Other Intangible assets*			**47,463**	37,514
Total Goodwill and other intangible assets			**162,247**	152,298

* Net of accumulated amortisation

12. Goodwill and other intangible assets continued

In performing goodwill impairment testing, the following key assumptions were made:

- Discount rate was estimated using capital assets pricing model based on industry's beta.
- 2020, 2021 and 2022 years' cash flow projections were modelled applying the following growth rates:
  - Pharmacy and Distribution business – 5% growth rate.
  - Referral Hospitals business – growth for subsequent years – 9%; 5% terminal growth rate.
  - Clinics business – growth for subsequent years – 12% to 15%; 5% terminal growth rate.
  - Medical Insurance business – 5% growth rate.
- Moderate, stable 4.9% real GDP growth was assumed based on the external statistical forecasts for 2022 and beyond.

For the Referral Hospitals and Clinics Goodwill cash-generating units, the following additional assumptions were made over the first three-year period of the business plan:

- Further synergies will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

Goodwill is tested at the lowest level monitored by management, which is at the operating segment level. The Group performs goodwill impairment testing annually. The latest impairment test performed by the Group was as at 31 December 2019. The Group did not identify any impairment of goodwill as at 31 December 2019. The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period. The recoverable amount of the hospitals operating segment exceeds carrying amount by GEL 64,821 using the discount rate of 15.0%. The discount rate that brings value in use of Hospitals segment equal to the carrying value is 16.0%. Decrease in growth rate by 7.4% brings value in use of Hospitals segment equal to carrying value. The recoverable amount of the Clinics operating segment exceeds carrying amount by GEL 14,773 using the discount rate of 14.8%. The discount rate that brings value in use of the Clinics segment equal to carrying value is 16.0%. Decrease in growth rates by 8.9% brings value in use of the Clinics segment equal to carrying value.

In 2019, 8,025% shareholding interest in fully owned subsidiary, JSC Mega-Lab, with book value of GEL 1,035, was transferred to minority shareholder in exchange for acquisition of laboratory information management system together with supporting technology and applicable licenses. The amount was debited to other intangible assets.

Other intangible assets comprise licenses and computer software with carrying value as at 31 December 2019 of GEL 47,463 (31 December 2018: GEL 37,514). As at 31 December 2019, the cost of other intangible assets equalled GEL 59,107 (31 December 2018: GEL 45,903) and accumulated amortisation equalled GEL 11,644 (31 December 2018: GEL 8,389). Additions to intangible assets during 2019 comprised GEL 12,234 (2018: GEL 9,484), which includes capitalised salaries on HIS and EKIMO projects, as well as purchases of other intangible assets including software licenses and various modules. The Group did not dispose any of its intangible assets in either 2019 or 2018 years. Amortisation expense during 2019 comprised GEL 4,661 (2018: GEL 3,415). The Group did not identify any impairment of intangible assets as at 31 December 2019 (31 December 2018: GEL 260).

13. Taxation

The corporate income tax expense equals GEL 1,586 (2018: GEL 616).

	Year ended 31 December 2019	Year ended 31 December 2018
Current tax expense	**(1,586)**	(616)
Deferred tax charge – origination and reversal of temporary differences	**–**	–
Income tax expense	**(1,586)**	(616)

Georgian legal entities must file individual tax declarations. As at 31 December 2019, the statutory corporate tax rate was zero rate (2018: 0%) on retained earnings and 15% (2018: 15%) tax rate on distributed earnings.

The effective income tax rate differs from the statutory income tax rates. Reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
IFRS income before tax	**63,136**	53,855
Average tax rate	**15%**	15%
Theoretical income tax expense at the statutory rate	**(9,470)**	(8,078)
Correction of prior year declaration	**–**	(50)
Non-taxable income	**7,884**	7,549
Other non-deductible expenses	**–**	(37)
Income tax expense	**(1,586)**	(616)

13. Taxation continued

Deferred tax assets and liabilities as at 31 December and their movements for the year then ended comprise:

	31 December 2017	In the income statement	31 December 2018	**In the income statement**	**31 December 2019**
Tax effect of deductible temporary differences					
Tax credits carried forward	–	1,215	1,215	**556**	**1,771**
Deferred tax assets	–	1,215	1,215	**556**	**1,771**
Tax effect of taxable temporary differences:					
Investment in subsidiaries	–	1,215	1,215	**556**	**1,771**
Deferred tax liabilities	–	1,215	1,215	**556**	**1,771**
Net deferred tax (liability) asset	–	–	–	**–**	**–**
Deferred income tax assets	–	–	–	**–**	**–**
Deferred income tax liabilities	–	–	–	**–**	**–**

As at 31 December 2019, unrecognised portion of deferred tax assets originating from available tax credits comprised GEL 9,310 (2018: GEL 15,294).

14. Inventory

	31 December 2019	31 December 2018
Inventory held by pharma business (FIFO)	**155,075**	127,924
Inventory held by healthcare business (weighted average cost)	**19,387**	18,240
Total	**174,462**	146,164

Increase in Pharmacy and Distribution business inventory year over year is mainly caused by growth of the business. The Group performed inventory net realisable value test and did not identify impairment of inventory as at 31 December 2019 (2018: 0 GEL). Inventories recognised as an expense during 2019 comprised GEL 473,003 (2018: GEL 420,164).

15. Other assets

Other assets comprise:

	31 December 2019	31 December 2018
Call Option (Note 27, 37)	**23,119**	16,969
Lease deposit	**1,652**	1,832
Loans issued/acquired	**2,500**	1,452
Reinsurance asset	**467**	1,313
Prepaid operating taxes	**1,286**	1,115
Deferred acquisition costs	**1,083**	1,071
Lease receivable	**764**	742
Investment property	**838**	653
Non-medical receivables	**580**	170
Derivative financial assets	**–**	40
Other receivables	**5,720**	4,998
Total other assets, gross	**38,009**	30,355
Less – allowance for impairment (Note 30)	**(2,428)**	(2,428)
Total other assets, net	**35,581**	27,927

As part of the ABC acquisition contract, the Group entered into a call option agreement to buy the remaining non-controlling interest, which is a 33% stake in the combined pharma business during the period from 1 January 2023 to 31 December 2023. Respective derivative financial asset amounted to GEL 23,119 as at 31 December 2019 (2018: 16,969).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

16. Insurance contract liabilities

Insurance contract liabilities comprise:

	31 December 2019	31 December 2018
Insurance contracts liabilities		
– Unearned premiums reserve ("UPR")	**22,052**	19,291
– Reserves for claims reported but not settled ("RBNS")	**1,590**	1,964
– Reserves for claims incurred but not reported ("IBNR")	**1,847**	1,289
Total insurance contracts liabilities	**25,489**	22,544

17. Borrowings

The Group's borrowings comprise:

	31 December 2019	31 December 2018
Borrowings from foreign financial institutions	**136,113**	156,449
Borrowings from local financial institutions	**126,586**	134,337
Borrowings from non-controlling interest shareholders	**6,735**	6,031
Total borrowings	**269,434**	296,817

In the year ended 31 December 2019, borrowings from local financial institutions had an average interest rate of 11.05% per annum (2018: 10.74%), maturing on average in 750 days (2018: 782 days). Borrowings from international financial institutions had an average interest rate of 9.28% (2018: 9.52%), maturing in 1,591 days (2018: 1,918 days). Borrowings from non-controlling interest shareholder of subsidiary had an average interest rate of 9.39% (2018: 12.32%), maturing in 167 days (2018: 74 days). Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. As at 31 December 2019 and 31 December 2018, the Group complied with all these lender covenants. The Company's borrowings are GEL 10,251 (2018: GEL 9,432), which entirely represents loans from Evex Hospitals.

18. Accounts payable

Accounts payable comprise:

	31 December 2019	31 December 2018
Accounts payable for healthcare materials and supplies	**109,553**	90,102
Payable for purchase of property and equipment	**7,074**	7,171
Accounts payable for office supplies	**6,489**	3,187
Accounts payable for healthcare services	**686**	252
Other accounts payable	**4,898**	4,380
Total accounts payable	**128,700**	105,092

19. Debt securities issued

In November 2019, Evex Hospitals issued five-year term local bonds of GEL 50 million, out of which GEL 17.5 million were acquired by the entities within the Group. The bonds were issued at par value with annual coupon rate of 11.6%, representing a 310 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate. The proceeds were used to refinance borrowings from local commercial banks as well as previously issued debt securities. Total balance of debt securities issued as at 31 December 2019 equals GEL 94,151 (2018: GEL 93,573).

In July 2017, Evex Hospitals issued five-year term local bonds of GEL 90 million. The bonds were issued at par value with an annual coupon rate of 10.5% representing a 350 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate. The proceeds were used to refinance borrowings from local commercial banks, which are a relatively more expensive source of funding, and also to fund planned ongoing capital expenditures.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

20. Payables for share acquisitions

Payables for share acquisitions (also referred to as a "holdback" or an "acquisition holdback") are stated at fair value and represent outstanding amounts payable for business combinations and acquisition of non-controlling interest in existing subsidiaries. Payables for business combination is a portion of the total consideration, payment of which is deferred for a specified period of time in the future and, usually, is contingent upon certain events or conditions precedent or covenants established by the buyer. These conditions are: (i) The audited total equity balance in accordance with IFRS should not be materially different compared to management accounts existing as at the date of deal; (ii) Material unrecorded liabilities should not be identified; (iii) Any liabilities of the acquiree and/or its related parties towards the acquirer should not remain unpaid for greater than pre-determined period after acquisition. Once these conditions precedent are fulfilled, the holdback amount is then paid fully or adjusted, as prescribed in the share purchase agreement for each particular business combination.

Payable for share acquisitions comprised:

	31 December 2019	31 December 2018
Holdback for the acquisition of JSC ABC Pharmacy	**95,713**	88,536
LLC Emergency Service	**389**	2,591
JSC Pediatry	**347**	347
Total Payables for Share Acquisitions	**96,449**	91,474

As at 31 December 2019, GEL 79,480 (2018: GEL 71,668) from JSC ABC holdback amount of GEL 95,713 (2018: 88,536) represents redemption liability arising from put option held by minority shareholders of JSC GEPHA which can be exercised in 2022 in case of which the Group will have to acquire from non-controlling interests the remaining 33% share, based on pre-determined EBITDA multiple (4.5 times EBITDA). Payables for share acquisitions are measured at fair value: Put option is measured at present value of the best estimate of ultimately payable amount. Holdbacks for business acquisitions are measured at fair value, being the best estimate of price that would be paid to transfer a liability. During 2019, the Group paid GEL 5,224 from the JSC ABC holdback amount (2018: GEL 12,948).

21. Commitments and contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

As at 31 December 2019, the Group had litigations with the Social Service Agency ("SSA") in relation to an aggregate amount of GEL 7,717 (2018: GEL 7,233). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process.

Tax risk

Starting from 2019, the Group has recognised right of use asset on the face of its statement of financial position according to IFRS 16 (which is effective starting from 1 January 2019). The Group believes that tax risk associated with property tax of right of use assets is possible but not probable. Possible impact of property tax for the year ended 31 December 2019 equals GEL 811.

Financial commitments and contingencies

The Group's financial commitments and contingencies comprise the following:

	31 December 2019	31 December 2018
Capital commitments	**951**	1,099
Operating lease commitments		
– Leases due not later than 1 year	**938**	20,252
– Leases due later than 1 year but not later than 5 years	**3,874**	65,388
Total minimum operating lease commitments	**4,812**	85,640
Total financial commitments	**5,763**	86,739

As at 31 December 2019, capital commitments mainly comprised contracts related to the development of dental service. The Group did not have contingent rents or sublease payments. Rent expense recognised during the year equalled GEL 3,573 (2018: GEL 19,488).

22. Equity

Share Capital

Share capital of Georgia Healthcare Group PLC is denominated in GBP and shareholders are entitled to dividends in GBP. Management and the Board of Georgia Healthcare Group PLC announced a dividend of GEL 0.053 per share, to be paid in respect of 2018 financial year. This represents a payout of 20% of 2018 earnings. Dividends were fully paid on 12 July 2019.

As at 31 December 2019 and 31 December 2018, number of ordinary shares comprised 131,681,820 totalling GEL 4,784.

Treasury shares

The number of treasury shares held by the Company as at 31 December 2019, was 2,411,652 (2018: 2,937,273). The treasury shares are kept by the Company for the purposes of its future employee share-based compensation. During 2019, the Group purchased treasury shares of GEL 2,203 (2018: GEL 3,055).

Additional paid-in capital

Additional paid-in capital comprises credits or debits to equity on GHG share-related transactions. Any GHG share-related transaction impact (including share-based compensations) on top of nominal amount of GHG shares (0.01 GBP) is posted in additional paid-in capital account.

Nature and purpose of other reserves

In 2017, as part of the ABC acquisition contract, the selling shareholders have a put option to sell their remaining 33% stake in the combined Pharmacy and Distribution business to GHG during the period from 1 January 2023 to 31 December 2023. At initial recognition, in accordance with IFRS requirements, the Group recognised GEL 55 million (present value) liability to purchase the remaining 33% shares – included in the payable for share acquisitions caption. The non-controlling interest arising from the consolidated Pharmacy and Distribution business, GEL 24 million, was fully de-recognised in accordance with IFRS requirements. The difference between the redemption liability of GEL 55 million and the non-controlling interest of GEL 24 million was debited to equity, resulting in a reduction of equity through other reserves by GEL 31 million. The redemption liability is carried at fair value and interest is unwound on each reporting date. The Group has not changed any of its input estimates as presented in Note 37 (EBITDA or discount rate). The redemption liability increased by GEL 7,812 (Note 37) in 12 months period ended 31 December 2019 solely due to the unwinding of discount discussed above. The difference between the unwound interest and the share of profit attributable to the non-controlling interest is debited or credited to other reserves to "Acquisition of additional interest in existing subsidiaries" line. Current year change in the balance is partially attributable to the above contract. All the difference between subsequent changes to the redemption liability and the non-controlling interest is recognised in equity in the line "Acquisition of additional interest in existing subsidiaries" – the amount credited to other reserves equalled GEL 234 in 12 months period ended 31 December 2019 and the amount debited to non-controlling interest equalled GEL 8,046. The aggregate of the two amounts (credit of GEL 234 and debit of GEL 8,046) equalled GEL 7,812 and was credited to put option redemption liability (Note 37). The remaining credits to other reserves comprised GEL 1,131, which represents 85% shareholding interest acquisition in LLC Emergency Service, a subsidiary which was previously de-facto controlled by the Group. In exchange for the 85% interest in LLC Emergency Service, the Group paid cash amount of GEL 877, gave up a right to collect an asset in the form of prepayment of GEL 500 and gave up 15% minority shareholding interest in existing subsidiary, LLC Catastrophe Medicine Paediatric Centre, with book value of GEL 171 thereby reducing the shareholding interest in the entity from 100% to 85%. The value of 15% given up was debited to equity in the line "Acquisition of additional interest in existing subsidiaries by non-controlling shareholders".

As a result of the above discussed transactions, aggregate amount of GEL 1,364 was credited to the other reserves in the line of "Acquisition of additional interest in existing subsidiaries" (credit of GEL 234 due to put option and credit of GEL 1,131 due to LLC Emergency Service transaction). Besides, as a result of mainly the same transactions, GEL 9,018 was debited to non-controlling interest (debit of GEL 8,046 due to put option, debit of GEL 1,131 due to LLC Emergency Service transaction and credit of GEL 159 due to establishment of LLC New Dent as presented in Note 1 above).

As at 31 December 2019, losses from sale/acquisition of shares in existing subsidiaries equalled GEL 47,615 (2018: GEL 48,982).

Regulatory capital requirements

Regulatory capital requirements in Georgia are set by the ISSSA and are applied to Imedi L solely on a standalone basis. The ISSSA requirement is to maintain a minimum Capital of GEL 2,200, which should be kept in current accounts. A bank confirmation letter is submitted to ISSSA on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement. Imedi L regularly and consistently complies with the ISSSA regulatory capital requirement.

Earnings per share

For the purpose of calculating basic earnings per share, the Group used profit for the year and total comprehensive income for the year attributable to shareholders of the Company of GEL 40,149 (2018: GEL 34,434) and GEL 40,090 (2018: GEL 34,434) respectively as a numerator and the weighted average number of shares outstanding during the period ended 31 December 2019 of 129,010,448 (31 December 2018: 128,752,840) as a denominator. For diluted earnings per share, the Group used the same numerator as for basic earnings per share and used the weighted average number of shares outstanding together with the number of shares granted to management during the period ended 31 December 2019 of 131,681,820 (2018: 131,681,820) as a denominator. Excluding the impact of IFRS 16 adoption, 2019 basic and diluted earnings per share (profit for the period) would have been 0.36 and 0.35 respectively (2018: 0.27 and 0.26 respectively). Excluding the impact of IFRS 16 adoption, 2019 basic and diluted earnings per share (total comprehensive income) would have been 0.36 and 0.35 respectively (2018: 0.27 and 0.26 respectively).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

23. Healthcare services and Pharmacy and Distribution revenue

	Year ended 31 December 2019	Year ended 31 December 2018
Healthcare services revenue from State (UHC)	**223,917**	204,261
Healthcare services revenue from out-of-pocket and other	**84,299**	78,500
Healthcare services revenue from insurance companies	**9,346**	11,917
Less: Corrections & rebates	**(2,520)**	(3,609)
Total healthcare services revenue	**315,042**	291,069
Retail	**430,312**	372,110
Wholesale	**140,524**	128,980
Total revenue from pharmacy and distribution	**570,836**	501,090

The Group has recognised the following revenue-related contract assets and liabilities:

	31 December 2019	31 December 2018
Deferred revenues	**4,906**	4,867
Receivables from healthcare services	**130,212**	106,841
Receivables from sale of pharmaceuticals	**17,508**	20,440

Receivables from healthcare services are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as the Group performs under the contract.

The Group recognised GEL 1,998 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in deferred revenues.

In period ended 31 December 2019, the Group has recognised the following amounts relating to revenue from contracts with customers in the income statement: Healthcare services revenue of GEL 315,042; Revenue from pharmacy and distribution of GEL 570,836.

The Group applies practical expedient mentioned in IFRS 15.121 and does not disclose information about the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, the original expected duration of the underlying contracts is less than one year.

24. Net insurance premiums earned

Net insurance premium earned comprises:

	Year ended 31 December 2019	Year ended 31 December 2018
Gross premiums written	**77,557**	55,292
Change in unearned premiums reserve	**(2,877)**	(1,145)
Total net insurance premiums earned	**74,680**	54,147

25.Cost of healthcare services and pharmaceuticals

	Year ended 31 December 2019	Year ended 31 December 2018
Cost of salaries and other employee benefits	**(112,321)**	(105,440)
Cost materials and supplies	**(48,189)**	(34,012)
Cost of utilities and other	**(14,449)**	(13,248)
Cost of providers	**(3,280)**	(3,226)
Total cost of healthcare services	**(178,239)**	(155,926)
Retail	**(309,213)**	(275,887)
Wholesale	**(115,601)**	(110,265)
Total cost of sales of pharmaceuticals	**(424,814)**	(386,152)

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment. Indirect salaries that were not included in the cost of healthcare services amounted in the year ended 31 December 2019 to GEL 94,510 (2018: GEL 84,509) and were presented as a separate line item in profit or loss. The total amount of salaries and other employee benefits recognised as an expense in profit or loss in the year ended 31 December 2019 amounted to GEL 206,831 (2018: GEL 189,949).

26. Cost of insurance services and agents’ commissions

Cost of insurance services and agents’ commissions comprises:

	Year ended 31 December 2019	Year ended 31 December 2018
Insurance claims paid	**(46,175)**	(33,651)
Change in insurance contract liabilities	**(964)**	867
Net insurance claims incurred	**(47,139)**	(32,784)
Agents, brokers and employee commissions	**(2,801)**	(2,843)
Cost of insurance services and agents’ commissions	**(49,940)**	(35,627)

27. Other operating income

Other operating income comprises:

	Year ended 31 December 2019	Year ended 31 December 2018
Gain from call option (Note 15, 37)	**6,150**	6,863
Gain from property and equipment sold	**2,867**	490
Payables derecognised	**1,924**	3,881
Rental Income	**1,365**	1,190
Fee Income	**1,479**	944
Income from residency program	**422**	291
Share of profit of associate	**357**	247
Revenue from sale of medicine	**–**	447
Other	**4,366**	3,767
Total other operating income	**18,930**	18,120

As part of the ABC acquisition, contract acquirer (JSC GEPHA) has a call option to buy the remaining non-controlling interest, which is a 33% stake in the combined Pharmacy and Distribution business during the period from 1 January 2023 to 31 December 2023. In the period ended 31 December 2019, in accordance with IFRS requirement’s the Group recognised GEL 6,150 (2018: GEL 6,863) gain from the call option.

In the period ended 31 December 2019, the Group derecognised trade payables of GEL 1,924 (2018: GEL 3,081) due to expiration of statute of limitations.

28. Salaries and other employee benefits

Salaries and employee benefits comprise:

	Year ended 31 December 2019	Year ended 31 December 2018
Salaries and other benefits	**(81,773)**	(71,510)
Cash bonuses	**(7,772)**	(7,831)
Share-based compensation	**(4,965)**	(5,168)
Total salaries and other employee benefits	**(94,510)**	(84,509)

Average number of full-time employees, including those whose salaries are included in cost of healthcare services, in 2019 equalled 16,068 (2018: 15,704). Average number of physicians comprised 3,585 in 2019 (2018: 3,550). Average number of nurses comprised 3,349 in 2019 (2018: 3,274). Average number of pharmacists comprised 2,865 in 2019 (2018: 2,677).

In 2019, total amount of management share-based compensation prior to capitalisation of eligible costs equalled GEL 6,978 (2018: GEL 6,135). Portion of share-based compensation costs were capitalised on development projects.

Directors' remuneration information is disclosed in the Remuneration Report in the front end of the Annual Report.

Notes to Consolidated Financial Statements continued
(Thousands of Georgian Lari unless otherwise stated)

29. General and administrative expenses
General and administrative expenses comprise:

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term and low value lease expense/Rent expense	**(3,573)**	(19,488)
Marketing and advertising	**(8,850)**	(6,209)
Office supplies and utility expenses	**(7,107)**	(5,464)
Professional services	**(4,782)**	(4,753)
Operating tax expense	**(3,695)**	(3,818)
Bank fees and commissions	**(2,424)**	(1,907)
Administrative utilities	**(2,297)**	(1,863)
Communication	**(1,917)**	(1,780)
Representative expense	**(1,353)**	(1,645)
Travel	**(1,008)**	(1,113)
Security	**(1,220)**	(966)
Other	**(3,765)**	(5,430)
Total general and administrative expenses	**(41,991)**	(54,436)

In the years ended 31 December 2019 and 31 December 2018, other general and administrative expenses mainly comprised training, property insurance and other expenses.

The below table presents auditors' remuneration:

	Year ended 31 December 2019	Year ended 31 December 2018
Fees payable for the audit of the Company's current year Annual Report	**981**	921
Fees payable for other services:		
Audit of the Company's subsidiaries	**55**	53
Total audit fees	**1,036**	974
Audit related assurance services		
Review of the Company's and Subsidiaries' interim accounts	**391**	371
Total audit related fees	**391**	371
Total fees	**1,427**	1,345

30. Impairment of healthcare services, sales of pharmaceuticals, insurance premiums and other receivables
The movements in the allowance for healthcare services, insurance premiums receivables and other receivables are as follows:

	Insurance and reinsurance receivables	Receivables from healthcare services	Receivables from Pharma	Other receivables	Total
1 January 2018	2,329	17,337	–	2,473	22,139
Impairment charge/(reversal)	362	4,351	(220)	(45)	4,448
IFRS 9 adoption effect	–	5,536	1,491	–	7,027
Impairment of receivables due to litigations	–	2,801	–	–	2,801
Write-off	(300)	(10,836)	(686)	–	(11,822)
31 December 2018	**2,391**	**19,189**	**585**	**2,428**	**24,593**
Impairment charge/(reversal)	**481**	**3,371**	**470**	**–**	**4,322**
Write-off	**–**	**(345)**	**(678)**	**–**	**(1,023)**
31 December 2019	**2,872**	**22,215**	**377**	**2,428**	**27,892**

As at 31 December 2019, gross amount of written-off enforceable receivables equalled GEL 31,821 (2018: GEL 30,798).

31. Other operating expense

	Year ended 31 December 2019	Year ended 31 December 2018
Repair and maintenance expense	**(2,857)**	(2,880)
Client referral fee expense	**(2,258)**	(1,898)
Loss from property and equipment sold	**(1,584)**	(110)
Penalties and impairment of tax assets	**(1,120)**	(1,118)
Charity	**(307)**	(225)
Impairment of receivables due to litigations	**–**	(2,801)
Cost of realised medicine	**–**	(694)
Impairment of prepayments	**–**	(115)
Impairment of intangible assets	**–**	(260)
Other	**(2,006)**	(953)
Total other operating expense	**(10,132)**	(11,054)

In 2019 and 2018 years, the penalty expenses mainly related to procedural violations in medical documentation as well as billing and invoicing process.

32. Interest income and interest expense

Interest income and interest expense comprise:

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income		
Interest income from loans issued/acquired	**408**	197
Interest income from amounts due from credit institutions	**1,220**	942
Total interest income	**1,628**	1,139
Interest expense		
Interest expense on borrowings	**(32,929)**	(29,332)
Interest expense on debt securities issued	**(9,391)**	(9,125)
Interest expense on lease	**(5,714)**	(858)
Total interest expense	**(48,034)**	(39,315)

33. Net non-recurring expense

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as income or expense triggered by or originated from an unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Net non-recurring expense for the year ended 31 December 2019 comprised:

- GEL 882 loss from employee dismissal compensation; and
- GEL 171 loss from other individually insignificant transactions;

Net non-recurring expense for the year ended 31 December 2018 comprised:

- GEL 783 one-off charity expense;
- GEL 430 loss for remeasurement of contingent consideration payable;
- GEL 331 prior period related professional service additional billing expense;
- GEL 184 loss from employee dismissal compensation; and
- GEL 459 loss from other individually insignificant transactions.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

34. Share-based compensation

Sanne Fiduciary Services (the "Trustee") acts as the trustee of the Group's Employee Benefit Trust, (EBT), which was founded in 2015. The EBT was established for the purposes of satisfying deferred share compensation awarded to Executive Directors and other members of executive and senior management.

GHG senior executive plans

In February 2019, the Board of Directors of GHG resolved to award 111,301 ordinary shares of GHG to the CEO of the Group. In February 2019, the Board of Directors of GHG resolved to award 173,121 ordinary shares of GHG to three executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 8 February 2019 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 8.02 per share as at grant date. The fair values were identified based on market prices on grant date. As at 31 December 2019, no shares have been vested.

In December 2017, the Board of Directors of GHG resolved to award 122,900 ordinary shares of GHG to the CEO of the Group. In December 2017, the Board of Directors of GHG resolved to award 107,200 ordinary shares of GHG to three executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 10 December 2017 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 12.54 per share as at grant date. The fair values were identified based on market prices on grant date. As at 31 December 2019, one third of the discretionary shares have been vested.

In February 2017, the Board of Directors of GHG resolved to award 141,981 ordinary shares of GHG to the CEO of the Group. In February 2017, the Board of Directors of GHG resolved to award 128,070 ordinary shares of GHG to three executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 28 February 2017 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 11.68 per share as at grant date. The fair values were identified based on market prices on grant date. As at 31 December 2019, two thirds of the discretionary shares have been vested.

In February 2016, the Board of Directors of GHG resolved to award 237,500 ordinary shares of GHG to the CEO of the Group. In February 2016, the Board of Directors of GHG resolved to award 281,000 ordinary shares of GHG to three executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2016 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 6.28 per share as at grant date. The fair values were identified based on market prices on grant date. As at 31 December 2019, the discretionary shares have been fully vested.

In January 2015, the CEO of the Group and the deputies signed five-year fixed contingent share-based compensation agreements for the total of 1,670,000 ordinary shares of GHG. The total amount of shares allocated to each executive will be awarded in five equal instalments during the five consecutive years starting January 2017, of which each award will be subject to a four-year vesting period with 20% of shares vesting during the first three years and 40% of shares vesting during the fourth year. The Group considers 1 January 2015 and 29 April 2015 as the grant dates for the awards to the CEO and deputies respectively. The Group estimates that the fair value of the shares awarded was GEL 2.18 per share as at the respective grant dates. The respective fair values were estimated using appropriate valuation techniques based on market and income approaches. As at 31 December 2019, 24% of the shares have been vested.

Aggregate expense recognised in 2019 year, with regard to the above awards, comprised GEL 5,951 (2018: GEL 5,168).

	31 December 2019	31 December 2018
Number of shares outstanding at 1 January	**2,611,411**	2,712,310
Granted during the year	**772,747**	492,529
Forfeited during the year	**–**	(14,213)
Vested during the year	**(810,191)**	(579,215)
Number of shares outstanding at 31 December	**2,573,967**	2,611,411

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2019 was 1.15 years (2018: 1.53 years). The weighted average fair value of shares granted during the year was GEL 8.02 (2018: GEL 12.54).

35. Capital management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current year, other reserves, non-controlling interests borrowings and debt securities issued. The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are as follows:

- To maintain the required level of stability of the Group, thereby providing a degree of security to the shareholders as well as insurance policyholders of the insurance arm;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

Some operations of the Group are subject to local regulatory requirements in Georgia. These requirements impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimum insurance liquidity requirement, to minimise the risk of default and insolvency and to meet unforeseen liabilities as they arise.

During the year ended 31 December 2019 and year ended 31 December 2018, the Group complied with all regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

The Group's capital management policy for its insurance business is to hold the least required amount of regulatory capital and, also, to hold sufficient liquid assets to cover statutory requirements based on the directives of ISSSA. The regulations of ISSSA require that an insurance company must hold liquid assets of at least 75% of its unearned premium reserve, net of gross insurance premiums receivable, and 100% of its loss reserves. Assets eligible for inclusion in liquid assets are: cash and cash equivalents, amounts due from credit institutions, loans issued/acquired, investment property as well as other financial assets, as defined by ISSSA. The amount of such minimum liquid assets is called the "Statutory Reserve".

The Statutory Reserve requirement for Imedi L as at 31 December 2019 equals the minimal amount of liquid assets of GEL 8,868 (2018: GEL 7,503). The insurance company is fully compliant with the requirement by holding GEL 12,930 (2018: GEL 7,546) of total eligible liquid assets.

Changes in liabilities arising from financing activities:

	Borrowings	**Debt securities issued**	**Total**
1 January 2019	**296,817**	**93,573**	**390,390**
Proceeds from borrowings	**113,350**	**32,250**	**145,600**
Repayment of borrowings	**(150,072)**	**(30,300)**	**(180,372)**
Interest expense	**32,929**	**9,391**	**42,320**
Interest paid	**(28,778)**	**(10,763)**	**(39,541)**
Foreign exchange (gain)/loss	**5,188**	**–**	**5,188**
31 December 2019	**269,434**	**94,151**	**363,585**

	Borrowings	Debt securities issued	Total
1 January 2018	267,010	93,493	360,503
Proceeds from borrowings	83,241	–	83,241
Repayment of borrowings	(61,818)	–	(61,818)
Interest expense	29,332	9,125	38,457
Interest paid	(25,703)	(9,045)	(34,748)
Capitalised borrowings costs	2,576	–	2,576
Foreign exchange (gain)/loss	2,179	–	2,179
31 December 2018	296,817	93,573	390,390

For roll-forward of lease liabilities, refer to Note 3.

36. Risk Management

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to insurance risk, credit risk, liquidity risk and market risk. It is also subject to operational risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

36. Risk Management continued

Introduction continued

Board of Directors

The Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's businesses. Among our responsibilities are setting and overseeing the execution of the Group's strategy within a framework of effective risk management and internal controls, demonstrating ethical leadership and upholding best practice corporate governance. The Board comprises nine Directors, six of whom are Independent Non-Executive Directors. Each of the Chairman, CEO and Non-Executive Directors has clearly defined roles within our Board structure.

Audit Committee

The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Group's risk management strategy related to the general control environment, manual and application controls, risks of intentional or unintentional misstatements, risk of fraud or misappropriation of assets, information security, information technology risks, etc. The Audit Committee facilitates the activities of the internal audit and external auditors of the Group. The Audit Committee is elected and directly monitored by the independent members of the Board.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is the Base Case (forecast under normal business conditions) and the other two are the Troubled and Distressed Scenarios, which are worse and the worst-case scenarios, respectively, that would arise in the event that extreme events that are unlikely to occur do, in fact, occur. Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The reports include aggregate receivables exposures and credit exposures, their limits, exceptions to those limits, insurance contract liability positions and their limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the levels of liquidity, credit positions, receivables positions and allowance for impairment on a monthly basis. The Management Board receives a comprehensive risk report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures to net currency position, insurance liabilities risks, interest rates and credit risks. The Group actively uses a collective financial responsibility approach to individual healthcare customers arising from the provision of healthcare services to out-of-pocket customers, to manage the respective individual debtors arising from healthcare services falling out of the scope of the UHC.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than originally estimated and subsequent development of long-term claims. The Group primarily uses its loss ratio and its combined ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as insurance related operating expenses excluding interest expense divided by net insurance revenue. The Group's loss ratios and combined ratios were as follows:

	31 December 2019	31 December 2018
Loss ratio	**81.4%**	77.3%
Combined ratio	**94.1%**	94.0%

The Group issues the following types of insurance contracts: health, term life bundled with health, personal accident and travel insurance. The table below sets out concentration of insurance contract liabilities by type of contract:

For these insurance contracts, the most significant risks arise from lifestyle changes, epidemic as well as changes in loss frequency and increases in prices of medical services. These risks vary significantly in relation to the location of the risk insured by the Group and the type of risks insured.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategies.

The Group establishes underwriting guidelines and limits that stipulate who may accept risks, their nature and applicable limits. These limits are continuously monitored. Strict claim review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims are in place. The Group also enforces a policy of actively managing and promptly processing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

36. Risk management continued

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for product and currency concentrations, and by monitoring exposures in relation to such limits. Also, the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service and ageing of receivables. Counterparty limits are established in combination with credit terms. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The credit quality of financial assets is managed by the Group based on number of overdue days. The table below shows maximum exposure to credit risk and credit quality by class of asset in the statement of financial position.

Credit quality per class of financial assets

	Notes	**Neither past due nor impaired 31 December 2019**	**Past-due but not impaired 31 December 2019**	**Impaired 31 December 2019**	**Total 31 December 2019**
Amounts due from credit institutions	7	**13,588**	**–**	**–**	**13,588**
Insurance premiums receivable	8	**26,892**	**–**	**2,872**	**29,764**
Receivables from sales of pharmaceuticals		**17,508**	**–**	**377**	**17,885**
Receivables from healthcare services	9	**81,466**	**48,746**	**22,215**	**152,427**
Other assets: loans issued/acquired and lease deposit	15	**4,152**	**–**	**–**	**4,152**
		143,606	**48,746**	**25,464**	**217,816**

	Notes	Neither past due nor impaired 31 December 2018	Past-due but not impaired 31 December 2018	Impaired 31 December 2018	Total 31 December 2018
Amounts due from credit institutions	7	11,807	–	–	11,807
Insurance premiums receivable	8	23,643	–	2,391	26,034
Receivables from sales of pharmaceuticals		20,440	–	584	21,024
Receivables from healthcare services	9	65,799	41,042	19,189	126,030
Other assets: loans issued/acquired and lease deposit	15	3,284	–	–	3,284
		124,973	41,042	22,164	188,179

Financial assets that are in overdue for less than 30 days are considered to have relatively low credit risk unless there is some forward-looking evidence to the contrary. Such assets are classified in grades "AA" (table 1 in Note 3) and "A" (table 2 in Note 3) in accordance with the Group's accounting policy and are included in "neither past due not impaired" category. The forward-looking evidence can be from the third-party sources including mass media, credit rating changes by rating provider agencies and events that have not yet affected but are expected to have impact on the creditworthiness of the third-parties. Below is the summary of grades as included in the categories presented in the table above:

- Neither past due nor impaired category includes grades "AA" (table 1 in Note 3) and "A" (table 2 in Note 3)
- Past-due but not impairment category includes receivables from grades "A", "B" and "C" (table 1 in Note 3) and "B" and "C" (table 2 in Note 3)
- Impaired category includes receivables from grade "D" (both table 1 and table 2 in Note 3)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet all its payment obligations when they fall due under normal or stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

36. Risk management continued

Liquidity risk and funding management continued

The table below analyses assets and liabilities of the Group into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

31 December 2019	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	**18,417**	**–**	**18,417**
Amounts due from credit institutions	**13,588**	**–**	**13,588**
Insurance premiums receivables	**26,892**	**–**	**26,892**
Receivables from healthcare services	**116,964**	**13,248**	**130,212**
Receivables from sales of pharmaceuticals	**17,508**	**–**	**17,508**
Inventory	**174,462**	**–**	**174,462**
Prepayments	**12,289**	**–**	**12,289**
Current income tax assets	**757**	**–**	**757**
Investment in associate	**–**	**3,481**	**3,481**
Property and equipment	**–**	**671,658**	**671,658**
Right of use assets	**–**	**84,115**	**84,115**
Goodwill and other intangible assets	**–**	**162,247**	**162,247**
Other assets	**4,180**	**31,401**	**35,581**
Total assets	**385,057**	**966,150**	**1,351,207**
Liabilities			
Accruals for employee compensation	**27,464**	**–**	**27,464**
Insurance contract liabilities	**25,489**	**–**	**25,489**
Accounts payable	**128,700**	**–**	**128,700**
Current income tax liabilities	**973**	**–**	**973**
Lease liabilities	**17,603**	**73,188**	**90,791**
Payable for share acquisitions	**5,735**	**90,714**	**96,449**
Borrowings	**107,230**	**162,204**	**269,434**
Debt securities issued	**1,951**	**92,200**	**94,151**
Other liabilities	**3,164**	**12,318**	**15,482**
Total liabilities	**318,309**	**430,624**	**748,933**
Net position	**66,748**	**535,526**	**602,274**
Accumulated gap	**66,748**	**602,274**	

31 December 2018	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	36,154	–	36,154
Amounts due from credit institutions	11,807	–	11,807
Insurance premiums receivables	23,643	–	23,643
Receivables from healthcare services	90,006	16,835	106,841
Receivables from sales of pharmaceuticals	20,440	–	20,440
Inventory	146,164	–	146,164
Prepayments	10,255	2,809	13,064
Current income tax assets	1,007	–	1,007
Investment in associate	–	3,124	3,124
Property and equipment	–	672,841	672,841
Right of use assets	–	8,799	8,799
Goodwill and other intangible assets	–	152,298	152,298
Other assets	9,109	18,818	27,927
Total assets	348,585	875,524	1,224,109
Liabilities			
Accruals for employee compensation	26,615	–	26,615
Insurance contract liabilities	22,544	–	22,544
Accounts payable	97,921	7,171	105,092
Current income tax liabilities	41	–	41
Lease liabilities	8,676	–	8,676
Payable for share acquisitions	8,285	83,189	91,474
Borrowings	106,102	190,715	296,817
Debt securities issued	4,648	88,925	93,573
Other liabilities	17,680	2,963	20,643
Total liabilities	292,512	372,963	665,475
Net position	56,073	502,561	558,634
Accumulated gap	56,073	558,634	

36. Risk management continued

Liquidity risk and funding management continued

Amounts and maturities in respect of the insurance contract liabilities are based on management's best estimate based on statistical techniques and past experience. Management believes that the current level of the Group's liquidity is sufficient to meet all its present obligations and settle liabilities in timely manner.

The Group also matches the maturity of financial assets and financial liabilities, and imposes a maximum limit on negative gaps.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

31 December 2019	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Accounts payable	**128,700**	**–**	**–**	**–**	**128,700**
Accruals for employee compensation	**27,464**	**–**	**–**	**–**	**27,464**
Debt securities issued	**5,952**	**6,673**	**122,865**	**–**	**135,490**
Borrowings	**45,706**	**71,615**	**194,878**	**–**	**312,199**
Payable for share acquisition	**5,735**	**–**	**120,612**	**–**	**126,347**
Lease liabilities	**5,976**	**17,331**	**71,780**	**38,322**	**133,409**
Total undiscounted financial liabilities	**219,533**	**95,619**	**510,135**	**38,322**	**863,609**

31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	97,921	–	7,171	–	105,092
Accruals for employee compensation	26,615	–	–	–	26,615
Debt securities issued	4,877	4,712	118,350	–	127,939
Borrowings	45,655	78,224	204,433	23,459	351,771
Payable for share acquisition	5,041	2,677	85,487	–	93,205
Lease liabilities	8,780	–	–	–	8,780
Total undiscounted financial liabilities	188,889	85,613	415,441	23,459	713,402

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

The Group has exposure to market risks. The Group structures the levels of market risk it accepts through a Group market risk policy that determines what constitutes market risk for the Group.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Group has floating interest rate borrowings linked to LIBOR and NBG short-term loan refinancing rates and is therefore exposed to interest rate risk.

	31 December 2019			31 December 2018		
	GEL	**US$**	**EUR**	GEL	US$	EUR
Amounts due from credit institutions	**11.5%**	**4.9%**	**–**	9.30%	4.88%	–
Borrowings	**12.4%**	**5.0%**	**6.3%**	11.09%	6.87%	12.00%

Sensitivity of the consolidated profit or loss is the effect of the assumed changes in interest rates on the interest expense for the year. During the year ended 31 December 2019 and 2018, sensitivity analysis did not reveal any significant potential effect on the Group's equity. The following table demonstrates sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated profit or loss:

Currency	**Increase in basis points 31 December 2019**	**Sensitivity of interest expense 31 December 2019**
US$	**-0.96%**	**(643)**
GEL	**+2.0%**	**1,989**

Currency	**Increase in basis points 31 December 2019**	**Sensitivity of interest expense 31 December 2019**
US$	**+0.96%**	**643**
GEL	**-2.0%**	**(1,989)**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

36. Risk management continued

Market risk continued

Interest rate risk continued

Currency	Increase in basis points 31 December 2018	Sensitivity of interest expense 31 December 2018
US$	+1.04%	712
GEL	+0.25%	560

Currency	Increase in basis points 31 December 2018	Sensitivity of interest expense 31 December 2018
US$	-1.04%	(712)
GEL	-0.25%	(560)

Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to US dollar.

The Group's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group entities – Lari. Most of the Group's operations are denominated in Lari too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from US dollars denominated borrowings that are partially hedged through cash deposits with banks, also denominated in US dollars and the foreign currency forward contracts with the Group's counterparties. The Group also hedges currency risk component of two of its fixed assets that are intended for disposal through foreign exchange denominated borrowings (Note 3). The hedge was fully effective in 2019. The gross value of foreign exchange fluctuation hedged equalled 2019: GEL 1,128 gain (2018: GEL 498 gain) on both hedged items and hedging instrument.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2019 and 31 December 2018 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the profit or loss. A negative amount in the table reflects a potential net reduction in profit or loss, while a positive amount reflects a net potential increase.

	31 December 2019			
	GEL	**US$**	**EUR**	**Total**
Assets				
Cash and cash equivalents	**17,677**	**205**	**535**	**18,417**
Amounts due from credit institutions	**9,783**	**3,805**	**–**	**13,588**
Receivables from sales of pharmaceuticals	**13,885**	**947**	**2,676**	**17,508**
Other assets: loans issued/acquired and lease deposit	**2,500**	**1,652**	**–**	**4,152**
Total monetary assets	**43,845**	**6,609**	**3,211**	**53,665**
Liabilities				
Accounts payable	**57,937**	**28,946**	**41,817**	**128,700**
Accruals for employee compensation	**26,676**	**788**	**–**	**27,464**
Payable for share acquisitions	**80,216**	**16,233**	**–**	**96,449**
Insurance contract liabilities	**24,980**	**258**	**251**	**25,489**
Borrowings	**183,477**	**66,631**	**19,326**	**269,434**
Lease liabilities	**8,428**	**79,775**	**2,588**	**90,791**
Total monetary liabilities	**381,714**	**192,631**	**63,982**	**638,327**
Net monetary position, before derivatives	**(337,869)**	**(186,022)**	**(60,771)**	**(584,662)**
Hedge accounting position	**–**	**16,934**	**–**	**16,934**
Net monetary position including derivatives	**(337,869)**	**(169,088)**	**(60,771)**	**(567,728)**
% Reasonably possible increase in currency exchange rate		**12.38%**	**10.88%**	
Effect on profit before income tax expense		**(20,933)**	**(6,612)**	
% Reasonably possible decrease in currency exchange rate		**-12.38%**	**-10.88%**	
Effect on profit before income tax expense		**20,933**	**6,612**	

36. Risk Management continued
Market risk continued
Currency risk continued

	31 December 2018			
	GEL	US$	EUR	Total
Assets				
Cash and cash equivalents	35,469	349	336	36,154
Amounts due from credit institutions	4,134	7,673	–	11,807
Receivables from sales of pharmaceuticals	18,427	1,109	904	20,440
Other assets: loans issued/acquired and lease deposit	728	2,556	–	3,284
Total monetary assets	58,758	11,687	1,240	71,685
Liabilities				
Accounts payable	60,582	18,758	25,752	105,092
Accruals for employee compensation	25,860	755	–	26,615
Payable for share acquisitions	71,831	19,643	–	91,474
Insurance contract liabilities	22,222	90	232	22,544
Borrowings	223,813	68,702	4,302	296,817
Lease liabilities	–	8,676	–	8,676
Total monetary liabilities	404,308	116,624	30,286	551,218
Net monetary position, before derivatives	(345,550)	(104,937)	(29,046)	(479,533)
Derivative financial instruments	(48,139)	48,159	–	20
Hedge accounting position	–	15,805	–	15,805
Net monetary position including derivatives	(393,689)	(40,973)	(29,046)	(463,708)
% Reasonably possible increase in currency exchange rate		10.04%	8.55%	
Effect on profit before income tax expense		(4,114)	(2,483)	
% Reasonably possible decrease in currency exchange rate		-10.04%	-8.55%	
Effect on profit before income tax expense		4,114	2,483	

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

The Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country and undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

37. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Group uses the following hierarchy for determining and disclosing the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

37. Fair Value Measurements continued

Fair value hierarchy continued

The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy. They also include a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the Financial Statements. During 2019 and 2018, there have been no transfers between the levels.

	Level 1	Level 2	Level 3	Total fair value 31 December 2019	Carrying value 31 December 2019	Unrecognised gain (loss) 31 December 2019
Assets measured at fair value						
Other assets: call option	–	–	23,119	23,119	23,119	–
Liabilities measured at fair value						
Payables for share acquisitions: put option	–	–	79,480	79,480	79,480	–
Payables for share acquisitions: holdback for business acquisitions	–	–	16,969	16,969	16,969	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	18,417	–	18,417	18,417	–
Amounts due from credit institutions	–	–	13,588	13,588	13,588	–
Receivables from healthcare services	–	–	130,212	130,212	130,212	–
Insurance premiums receivable	–	–	26,892	26,892	26,892	–
Receivables from sales of pharmaceuticals	–	–	17,508	17,508	17,508	–
Property and equipment	–	–	688,055	688,055	671,658	16,397
Right of use assets	–	–	84,115	84,115	84,115	–
Other assets: loans issued/acquired and lease deposit	–	–	4,152	4,152	4,152	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	273,849	273,849	269,434	(4,415)
Debt Securities issued	–	–	94,626	94,626	94,151	(475)
Lease liabilities	–	–	92,422	92,422	90,791	(1,631)

	Level 1	Level 2	Level 3	Total fair value 31 December 2018	Carrying value 31 December 2018	Unrecognised gain (loss) 31 December 2018
Assets measured at fair value						
Other assets: call option	–	–	16,969	16,969	16,969	–
Liabilities measured at fair value						
Payables for share acquisitions: put option	–	–	71,668	71,668	71,668	–
Payables for share acquisitions: holdback for business acquisitions	–	–	19,806	19,806	19,806	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	36,154	–	36,154	36,154	–
Amounts due from credit institutions	–	–	11,807	11,807	11,807	–
Receivables from healthcare services	–	–	106,841	106,841	106,841	–
Insurance premiums receivable	–	–	23,643	23,643	23,643	–
Receivables from sales of pharmaceuticals	–	–	20,440	20,440	20,440	–
Property and equipment	–	–	689,238	689,238	672,841	16,397
Right of use assets	–	–	8,799	8,799	8,799	–
Other assets: loans issued/acquired and lease deposit	–	–	3,284	3,284	3,284	–
Other assets: non-medical receivables	–	–	170	170	170	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	293,229	293,229	296,817	3,588
Debt Securities issued	–	–	93,434	93,434	93,573	139
Lease liabilities	–	–	8,697	8,697	8,676	(21)

The following is a description of the determination of fair value for financial instruments and property that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

37. Fair Value Measurements

Fair value hierarchy continued

Property and equipment

Property carried at fair value consists of land and buildings and hospitals and clinics, for which fair value is derived by certain inputs that are not based on observable market data. The value of these assets is measured using the market and depreciated replacement cost (DRC) approaches. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable land and buildings respectively, while DRC approach uses construction costs for similar properties.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs comprise forward foreign exchange contracts. The applied valuation technique employs a discounted forward pricing model. The model incorporates various inputs including the foreign exchange spot and forward rates.

Call option represents option on acquisition of remaining 33% equity interest in JSC GEPHA from non-controlling interests in 2022 based on pre-determined EBITDA multiple (6.0 times EBITDA) of JSC GEPHA. The Group has applied binomial model for option valuation. Major unobservable input for call option valuation represents volatility of price of the underlying 33% minority share of equity, which was estimated based on actual volatility of company's market capitalisation from 1 January 2017 till 31 December 2019 period, which equalled 42.17%. If the volatility was 10% higher, fair value of call option would increase by GEL 6,804 (2018: GEL 2,533) if volatility was 10% lower call option value would decrease by GEL 7,189 (2018: GEL 2,770). The Group recognised GEL 6,150 (2018: GEL 6,863) unrealised gains on the call option during the year ended 31 December 2019.

Put option represents option owned by non-controlling shareholders on sale of remaining 33% equity interest in JSC GEPHA to the Group in 2022 based on pre-determined EBITDA multiple (4.5 times EBITDA) of JSC GEPHA. The Group has estimated put option value based on number of unobservable inputs. Major unobservable input for put option valuation represents estimated EBITDA of JSC GEPHA as well as discount rate used to value the option. The Group has applied 11% discount rate to value the option. If the discount rate was 1% higher, fair value of put option redemption liability would decrease by GEL 2,112 (2018: GEL 2,528) if discount rate was 1% lower put option redemption liability value would increase by GEL 2,189 (2018: GEL 2,644).

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	1 January 2018	Initial recognition	Remeasurement in equity	Payment	Remeasurement in income statement	Business combinations	At 31 December 2018
Level 3 financial assets							
Call option	10,106	–	–	–	6,863	–	16,969
Level 3 financial liabilities							
Payables for share acquisitions: put option	61,512	–	10,156	–	–	–	71,668
Payables for share acquisitions: holdback for business acquisitions	36,746	–	–	(16,626)	(1,340)	1,026	19,806

	1 January 2019	**Initial recognition**	**Remeasurement in equity**	**Payment**	**Remeasurement in income statement**	**Business combinations**	**At 31 December 2019**
Level 3 financial assets							
Call option	**16,969**	**–**	**–**	**–**	**6,150**	**–**	**23,119**
Level 3 financial liabilities							
Payables for share acquisitions: put option	**71,668**	**–**	**7,812**	**–**	**–**	**–**	**79,480**
Payables for share acquisitions: holdback for business acquisitions	**19,806**	**–**	**–**	**(6,772)**	**3,935**	**–**	**16,969**

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) as well as for all short-term state receivables, it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on a discounted cash flow analysis using prevailing money-market interest rates for debts with similar credit risk and maturity.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

38. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	31 December 2019		31 December 2018	
	Entities under common control**	**Other***	Entities under common control**	Other*
Assets				
Insurance premiums receivable	**1,110**	**–**	621	–
Other assets: Investment securities: available-for-sale	**–**	**–**	684	–
Other assets: Derivative financial assets	**–**	**–**	–	–
Prepayments and Other assets: other	**549**	**–**	60	–
	1,659	**–**	1,365	–
Liabilities				
Accounts payable	**1,027**	**–**	311	–
Borrowings*	**–**	**6,735**	–	6,031
Insurance contract liabilities	**836**	**–**	–	–
Other liabilities: other	**29**	**–**	–	–
	1,892	**6,735**	311	6,031

	Year ended 31 December 2019	**Year ended 31 December 2019**	Year ended 31 December 2018	Year ended 31 December 2018
	Entities under common control**	**Other***	Entities under common control**	Other*
Income and expenses				
Net insurance premiums earned	**1,598**	**–**	1,122	–
General and administrative expenses	**(1,377)**	**–**	(801)	–
Interest income	**40**	**–**	48	–
Interest expense	**–**	**(504)**	–	(590)
Net gains from foreign currencies	**72**	**–**	(113)	–
Other operating expenses	**(101)**	**–**	–	–
Other operating income***	**3,026**	**–**	120	–
Cost of healthcare services and medical trials	**(1,568)**	**–**	(1,525)	–
	1,690	**(504)**	(1,149)	(590)

* Borrowings from other parties comprise loans from the minority shareholders and are unsecured.

** Entities under common control include subsidiaries of Georgia Capital Group PLC since 30 May 2018 and subsidiaries of BGEO Group PLC before 29 May 2018 inclusively; The Group had no transactions with Georgia Capital, only with its subsidiaries.

*** The amount comprises gain from sale of land and office building by the Group's subsidiary, JSC GEPHA, to sister company, JSC m2. The property sold represented an unused asset of the Group, which emerged as a result of relocation of JSC GEPHA's head office from the property to new leased location.

Compensation of key management personnel comprised the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Salaries and cash bonuses	**7,509**	6,308
Share-based compensation	**4,952**	4,563
Total key management compensation*	**12,461**	10,871

* Key management personnel represent Board of Directors.

39. Events after Reporting Period

In February 2020, JSC Insurance Company Imedi L lost a significant client based on the number of insured customers, the Ministry of Defence, to a competitor. The Ministry of Defence is one of the country's largest entities by number of insured clients. The revenue from the client represented GEL 12.5 million. This will have immaterial impact on the Group's net profit, as the client loss ratio was far above the business' average.

In January 2019, 67% owned subsidiary of the Group, JSC GEPHA, declared dividend of GEL 19.1 million, of which GEL 12.8 million is attributable to JSC Georgia Healthcare Group and GEL 6.3 million to non-controlling interest shareholders. Out of the declared amount, GEL 3.8 million was paid to non-controlling interest shareholders during the subsequent period.

As a result of global pandemic in relation to COVID-19, the Group has developed a significant Group-wide action plan to address the outside demand, our customers and patients' needs, as well as to ensure the performance and well-being of our employees at an organisational level, details of which are described in Principal Risks and Uncertainties section, on page 57 under mitigation actions of COVID-19. The Group remains in constant contact with the Georgian NCDC and Ministry of Labour, Health and Social Affairs and as at the date of the Annual Report and Accounts are awaiting further instructions, should additional activities become necessary.

Given the current level of uncertainty with regard to the global impact of COVID-19, and the potential length of time of that impact the Group is also reconsidering its capital expenditure projects and at this time is prioritising only those that are important to current business' operations. In the meantime, while the full economic impact of the COVID-19 pandemic is better understood, and as announced by the Company on 18 March 2020, the Board of Directors has decided not to recommend a dividend to shareholders at the 2020 Annual General Meeting at this stage (an intention to recommend a dividend had been previously announced in the 2019 preliminary results, on 24 February 2020). When the full economic impact of the COVID-19 pandemic is better understood, the Board will consider the appropriate level of any future dividend payments. The Company stated in its announcement on 18 March 2020 that it will provide a further update with the announcement of the Group's first quarter of 2020 results in May.

Management is closely monitoring the situation around COVID-19 in Georgia and managing stock, liquidity and other activities accordingly. In addition to a successfully renegotiated increase in its Net debt to EBITDA covenant for Q1-Q3 2020 with two major lenders in December 2019, on 16 March 2020 the Group received one more formal agreement to set the Net debt to EBITDA covenant limit at 3.0 instead of 2.5 throughout 2020 year. As a preventing measure, management continues negotiations with its lenders to further revise Net debt to EBITDA covenant up to 3.5 starting from April 2020 up to 31 December 2020. In addition, subsequent to 31 December 2019, the Group drew on their credit lines in aggregate amount of GEL 33.5 million from local banks with floating interest rates of NBG refinancing rate+3.25% for 21.5 million and NBG refinancing rate+3.5% per annum for the remaining GEL 12.0 million.

Abbreviations

ABC	ABC Pharmacy
AGM	Annual General Meeting
AMR	Antimicrobial Resistance
AMS	Antimicrobical Stewardship
BGEO	BGEO Group PLC
CA	Current Account
CAGR	Compounded Annual Growth Rate
CDC	Centre for Disease Control and Prevention
CDW	Consolidated Data Warehouse
CIS	Commonwealth of Independent States
Code	The UK Corporate Governance Code 2018
CPD	Continuing Professional Development Programmes
CEO	Chief Executive Officer
CNF	Caucasus Nature Fund
CSR	Corporate Social Responsibility
DAC	Deferred Acquisition Costs
DCFTA	Deep and Comprehensive Free Trade Agreement
DSO	Day's Sales Outstanding
EBRD	European Bank of Reconstruction and Development
EBT	Employee Benefit Trust
EFF	IMF Extended Fund Facility Programme
ELG	Centralised medicine procurement entity that was transferred to the GHG pharmacy and distribution business wholesale segment in 2019
EMA	European Medicines Agency
EMR	Electronic Medical Records
ESOP	Employee Stock Ownership Plan/Equity Settled Option Plan
EU	European Union
Evex	JSC Medical Corporation Evex
EY	Ernst & Young LLP
FDA	Food and Drug Administration
FRC	Financial Reporting Council
FTA	Free Trade Agreement
FTSE	Financial Times Stock Exchange
GBP	Great British Pound, national currency of the UK
GCAP	Georgia Capital PLC
GDP	Gross Domestic Product
GEL	Georgian Lari or Lari, national currency of Georgia
GEPHA	JSC GEPHA
GHG	Georgia Healthcare Group
GPC	JSC GPC
Group	Georgia Healthcare Group
HIS	Healthcare Information System
HR	Human Resources
HRMS	Human Resources Management System
HTMC	High Technology Medical Centre University Clinic
IBNR	Incurred but not reported yet
ICP	Infections Control and Prevention
ICU	Intensive Care Units
IHF	International Hospital Federation
IT	Informational Technology
IFRS	International Financial Reporting Standards
IFRIC	IFRS Interpretations Committee
IMF	International Monetary Fund
IPC	Infection Prevention and Control
IPO	Initial Public Offering
ISSSA	Insurance State Supervision Service of Georgia
IVF	In Vitro Fertilisation
JCI	Joint Commission International
KBO	Key Business Objectives
KPI	Key Performance Indicator
LGD	Loss Given Default
LIMS	Laboratory Information Management System
LTIP	Long-term incentive plan
MCA	Medical Center Almedi
Mega Lab	Mega Laboratory
MOD	Ministry of Defence
MoU	Memorandum of Understanding
NBG	National Bank of Georgia
NCDC	National Centre for Disease Control and Public Health
OTC	Over the Counter
PACS	Picture Archiving and Communication System
PD	Probability of Default
RBNS	Reported but not yet settled
RED	Risk Event Database
PHI	Private Health Insurance
ROIC	Return on Invested Capital
SDG	Sustainable Development Goals
SIP	State Insurance Programme
SSA	Social Service Agency
S&P	Standard & Poor's
Trustee	Sanne Fiduciary Services
UHC	Universal Healthcare Programme
UPR	Unearned Premium Reserve
USD	United States Dollar, national currency of the US
WHO	World Health Organization
WTW	Willis Towers Watson
VAT	Value Added Tax

Glossary

Average length of stay	Number of inpatient days divided by number of patients. This calculation excludes data for the emergency department.
Bed occupancy rate	Number of total inpatient nights divided by the number of bed days (number of days multiplied by number of beds, excluding emergency beds) available during the year.
Combined ratio	Sum of loss ratio and expense ratio.
Commission ratio	Agents, brokers and employee commissions divided by net insurance premiums earned
Corrections and rebates	Corrections of invoices by third parties due to errors or faults.
Day's sales outstanding ratio ("DSO")	Receivables from sales of pharmaceuticals divided by wholesale revenue of pharmacy and distribution, multiplied by number of days in a given period.
Direct salary rate	Cost of salaries and other employee benefits divided by gross revenue excluding corrections and rebates.
Earnings per share (EPS)	Profit for the period attributable to shareholders of the Company divided by weighted average number of shares outstanding during the same period (unless otherwise noted).
EBITDA	The Group's Profit before income tax expense excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income.
EBITDA to cash conversion cycle	Equals Net cash flows from/(used in) operating activities before income tax divided by EBITDA.
EBITDA margin	EBITDA divided by gross revenue excluding corrections and rebates.
Eliminations	Intercompany transactions between medical insurance and healthcare services.
Expense ratio	Operating expenses excluding interest expense divided by net insurance revenue.
FTE	Full-time employees.
Gross margin	Gross profit divided by gross revenue excluding corrections and rebates.
Group's expansion capital expenditure (capex)	Longer-term expenditures including acquisition of properties with long-term useful lives.
Group's maintenance capital expenditure	Short-term expenditures (up to one year).
Group's rent expense	Expenses on operating lease contracts.
Loss ratio	Net insurance claims divided by net insurance revenue.
Materials rate	Cost of materials and supplies divided by gross revenue excluding corrections and rebates.
Net Debt to EBITDA	Borrowings less cash and cash equivalents and amounts due from credit institutions divided by EBITDA.
Normalised profit 2016	Is the net profit adjusted for one-off non-recurring gain due to deferred tax adjustments (in the aggregate amount of GEL 24.0 million for GHG, which resulted from the Group's healthcare services positive GEL 25.0 million, medical insurance business negative GEL 0.8 million and pharma business negative GEL 0.2 million) and adjusted for one-off currency translation loss in June ("translation loss") (in the amount of GEL 2.1 million).
Operating leverage	Difference between percentage increase in gross profit and percentage increase in total operating costs.
Organic growth	Healthcare revenue growth, excluding growth derived from the hospitals and clinics acquired during the current year.
Other operating expenses	Operating expenses which are not included in cost of sales and administrative expenses, which primarily include the cost of medicines sold, any losses from the sale of property and equipment, expenses on factoring, write-offs of fixed assets and other.
Renewal rate	Number of clients who renewed insurance contracts during given period divided by total number of clients.
Return on average equity	Profit for the period attributable to shareholders of the Company divided by average equity attributable to shareholders of the Company for the same period.
Revenue cash conversion	Equals revenue received from all business lines divided by net revenue.
Return on invested capital	Equals EBITDA minus depreciation, plus interest income divided by aggregate amount of total equity and borrowed funds.

Shareholder Information

Annual General Meeting

The Annual General Meeting (the "AGM") will be held at 10:00 am (London time) on 4 June 2020 at the offices of Baker & McKenzie, 100 New Bridge Street, London, EC4V 6JA, United Kingdom. Details of the business to be conducted at the AGM are contained in the Notice of AGM which shall be mailed to shareholders who have elected to receive hard copies of shareholder information on or about 23 April 2020, and will be available on the Company's website www.ghg.com.ge

Shareholder enquiries

GHG PLC's share register is maintained by Computershare Investor Services PLC. Any queries about the administration of holdings of ordinary shares, such as change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website www.investorcentre.co.uk or by calling the Shareholder Helpline on +44(0) 330 303 1186.

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Forward-looking statements

Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Healthcare Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, and certain of which include, among other things, those described in "Principal risks and uncertainties" included in this Annual Report and Accounts, see pages 55 to 60. No part of these results or report constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Healthcare Group PLC or any other entity, and must not be relied upon in any way in connection with any investment decision. Georgia Healthcare Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

Notes

Notes

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