GEORGIA
HEALTHCARE
GROUP

Investing in the growth and quality of healthcare in Georgia

Annual Report 2016

Who we are

Georgia Healthcare Group PLC ("GHG" or the "Group") is the UK incorporated holding company of the largest integrated player in the fast-growing predominantly privately-owned Georgia Healthcare ecosystem of GEL 3.4 billion aggregated value.

- **GHG is the single largest market participant in healthcare services,** accounting for 23.4% of total hospital bed capacity in the country, as of 31 December 2016. Our healthcare services business offers by far the most comprehensive range of inpatient and outpatient services targeting the mass market segment through its vertically integrated network of hospitals and ambulatory clinics.
- **GHG is the largest pharmaceuticals retailer and wholesaler in Georgia,** with approximately 29% market share by revenue.
- **GHG is also the largest provider of medical insurance in Georgia** with a 35.3% market share based on 2016 net insurance premiums.

GHG employed a total of c.12,800 people as at 31 December 2016, including 3,218 physicians, 2,869 nurses and 721 pharmacists.

We strongly believe that by investing in the healthcare market in Georgia, we support the improvement of the quality of care for the population throughout the country.

Hospitals

We operate 35 hospitals with a total of 2,557 beds. This includes: 15 referral hospitals with a total of 2,092 beds, which provide secondary or tertiary level healthcare services and 20 community hospitals with a total of 465 beds, which provide basic outpatient and inpatient healthcare services.

Read more on page 21

Ambulatories

We operate ten ambulatory clusters consisting of 13 district ambulatory clinics and 28 express ambulatory clinics that provide outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities.

Read more on page 22

Pharmacies

We operate 243 pharmacies throughout the country. We entered into the pharma business in 2016 and expanded in 2017, by purchasing the third and fourth largest pharmaceuticals retailers and wholesalers in Georgia, JSC GPC ("GPC") in May 2016 and JSC ABC Pharmacia ("ABC") in January 2017.

Read more on page 23

Medical Insurance

We are the largest medical insurance provider in Georgia with a wide distribution network. We offer a variety of medical insurance products primarily to the Georgian corporates, and also to retail clients, which is a growing segment for our medical insurance. We had approximately 211,000 insurance customers as at 31 December 2016.

Read more on page 23

Contents

2
Financial highlights

4-7
At a glance
We are the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market.

38
Our strategy

64-67
Risk management
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.

72
Business review – overview of financial results

120-183
Financial results
The Company's and Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

81
Directors' governance statement

128
Separate statement of financial position

184
Abbreviations

Strategic report

Overview

2	Financial highlights
3	Operating highlights
4	At a glance
8	Chairman's statement
10	Chief Executive Officer's statement
12	Industry and market overview
17	People development in our healthcare services business
20	Our business model
24	GHG became the largest pharma player in Georgia
28	Browse our facilities

Strategy

38	Our strategy
52	Key performance indicators
54	Resources and responsibilities
64	Risk management
68	Principal risks and uncertainties

Performance

72	Business review – overview of financial results

Governance

81	Directors' governance statement
86	Board and Senior Management
90	Nomination Committee report
92	Audit Committee report
97	Clinical Quality and Safety Committee report
99	Shareholder engagement
100	Remuneration report
116	Statement of Directors' responsibilities
117	Directors' report

Financial statements

120	Independent Auditor's report
128	Separate statement of financial position
129	Separate statement of changes in equity
130	Separate statement of cash flows
131	Consolidated statement of financial position
132	Consolidated statement of comprehensive income
133	Consolidated statement of changes in equity
134	Consolidated statement of cash flows
135	Notes to consolidated financial statements

Additional information

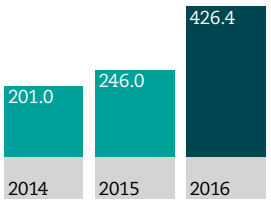
184	Abbreviations
185	Glossary
186	Shareholder information

Read this report online
Find the digital version of this report on our corporate website at: **www.ghg.com.ge**

Financial highlights

The effectiveness of our strategy is reflected in the record 2016 financial results highlighted below.

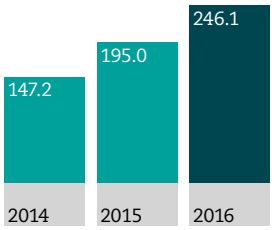
Revenue[1] (GEL million)



426.4

+73.4% y-o-y

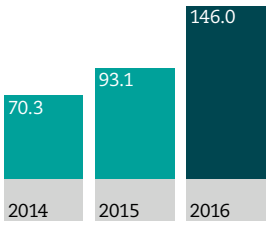
Healthcare services revenue (GEL million)



246.1

+26.2% y-o-y

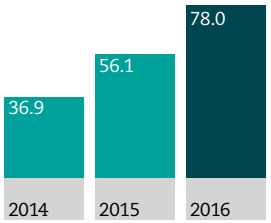
Gross profit (GEL million)



146.0

+56.8% y-o-y

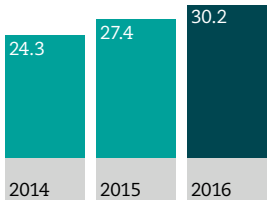
EBITDA (GEL million)



78.0

+39.0% y-o-y

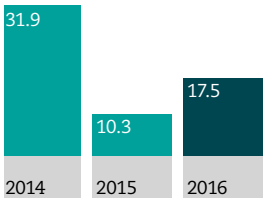
Healthcare services EBITDA margin (%)



30.2%

+2.8 ppts y-o-y

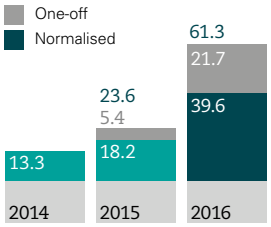
Healthcare services operating leverage (%)



17.5%

+7.2 ppts y-o-y

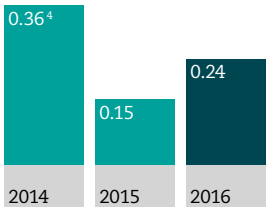
Profit[2] (GEL million)



61.3

+117.8% y-o-y (normalised)[2]

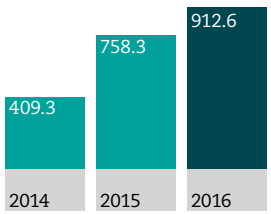
Earnings per share (GEL) (Normalised)[3]



0.24

+60.0% y-o-y

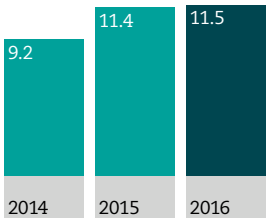
Total assets (GEL million)



912.6

+20.3% y-o-y

Return on average equity (%) (Normalised)[5]



11.5%

+0.1 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 423.8 million in 2016 (2015: GEL 242.4 million, 2014: GEL 199.2 million).
2 Normalised profit is the profit adjusted for one-off items. In 2016 one-off items include non-recurring gain due to deferred tax adjustments and one-off currency translation loss.
3 Normalised earnings per share ("Normalised EPS") is calculated as normalised profit (profit for the period attributable to shareholders adjusted for one off items as explained in "footnote 2"), divided by the weighted average number of shares outstanding during the same period.
4 Relatively large EPS in 2014 was caused by much smaller number of shares outstanding in 2014 year. Number of shares outstanding increased by 352.4%, from 28,334,829 in 2014 to 128,181,820 after IPO in 2015.
5 Normalised return on average total equity ("Normalised ROAE") is calculated as normalised profit (profit for the period attributable to shareholders adjusted for one-off items as explained in "footnote 2"), divided by average equity attributable to shareholders for the same period net of unutilised portion of IPO proceeds.

2016 operating highlights reflect the growth strategy.

Number of hospitals

35

+0 (over 2015)

Number of ambulatory clusters

10

+6 (over 2015)

Number of hospital beds

2,557

-113 (over 2015)

Referral hospital bed occupancy rate

63.0%

+0.7 ppts (over 2015)

Number of pharmacies*

243*

*Including ABC's pharmacies.

Number of physicians

3,218

+513 (over 2015)

Organic growth rate of healthcare services revenue

16.3%

-1.0 ppts (over 2015)

Number of insured

211,000

-23,000 (over 2015)

At a glance

The structure of our business

We are the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. We lead the market by offering the most comprehensive range of inpatient and outpatient services and by targeting the mass market segment through our vertically integrated network of 35 hospitals and ten ambulatory clusters, as at 31 December 2016.

GHG's market leading position, its unique business model with significant growth potential, and its experienced management team make it a compelling investment story. Furthermore, 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 through the Universal Healthcare Programme ("UHC") financing, enable us to capitalise on existing service gaps and the overall lower quality of medical care in the country.

Market leader

- **Largest healthcare service provider in Georgia:** 23.4% market share by number of beds (2,557), which is expected to grow to c.29% as a result of the renovation of two major hospital facilities, scheduled for completion in 2017 (additional c.600 beds)[1]
- **Largest pharmaceuticals retailer and wholesaler in Georgia:** After completing the acquisition of ABC pharmacy, in January 2017, we have merged it with our existing pharma business, GPC. The combined pharma business has 29% market share by sales, over two million client interactions per month, with 0.5 million loyalty card members. We started consolidating ABC's financial results from January 2017
- **Largest medical insurer in Georgia:** c.211,000 persons insured and 35.3% market share[2]
- **Widest Population Coverage:** coverage of over 3/4 of Georgia's 3.7 million population[3] with 35 high-quality hospitals, 13 district and 28 express ambulatory clinics and 243 pharmacies[4] (including ABC's pharmacies)
- **Institutionalising the industry:** Strong corporate governance; standardised processes; improving safety and quality by implementing Joint Commission International ("JCI") benchmarked standards; own personnel training centre

Long-term high-growth opportunities

- **Very low base:** healthcare services spending per capita only US$217, outpatient encounters are only 4.0 per capita annually[5], GHG revenue per hospital bed is only US$34,000[4]
- **Supported by attractive macro[6]:** Georgia – one of the fastest growing countries in Eastern Europe, an open and easy emerging market to do business[7], with real GDP growth averaged 4.5% annually during 2007-2016. Only 5.8% of GDP is spent on healthcare services and spending at healthcare services growing at 9% CAGR 2008-2013; Government spending nearly doubled between 2011-2015[8]
- **Implying long-term, high-growth expansion** that is driven by:
  - Universal Healthcare Programme covering Georgia's population driving utilisation of basic healthcare services nationwide, primarily inpatient (inpatient market was GEL 1,075 million in 2014)
  - Pick-up in ambulatory growth (outpatient market was only GEL 802 million in 2014) driven by newly introduced prescription policy and improved quality in supply[9]
  - The medical equipment market is expected to grow due to historical underinvestment

Business model with cost and synergy advantages

- **The single largest integrated player in the Georgia Healthcare ecosystem of GEL 3.4 billion aggregated value with cost advantage through scale:** purchasing, centralisation of administrative functions
  - Next healthcare services competitor has only 4% market share by beds
  - Largest purchaser of pharmaceutical products in Georgia
- **Better access to professional management and high calibre talent**
  - One of the largest employers in the country: c.12,811 full-time employees, including 3,218 physicians, 2,869 nurses and 721 pharmacists[4]
- **Referral system & synergies with insurance and pharma business:**
  - Presence along the patient pathway and referral synergies
  - Insurance activities provide steady revenue stream for our ambulatory clinics and bolster hospital patient referrals
  - 0.5 million loyal customers at our pharma business with upside to cross-sell

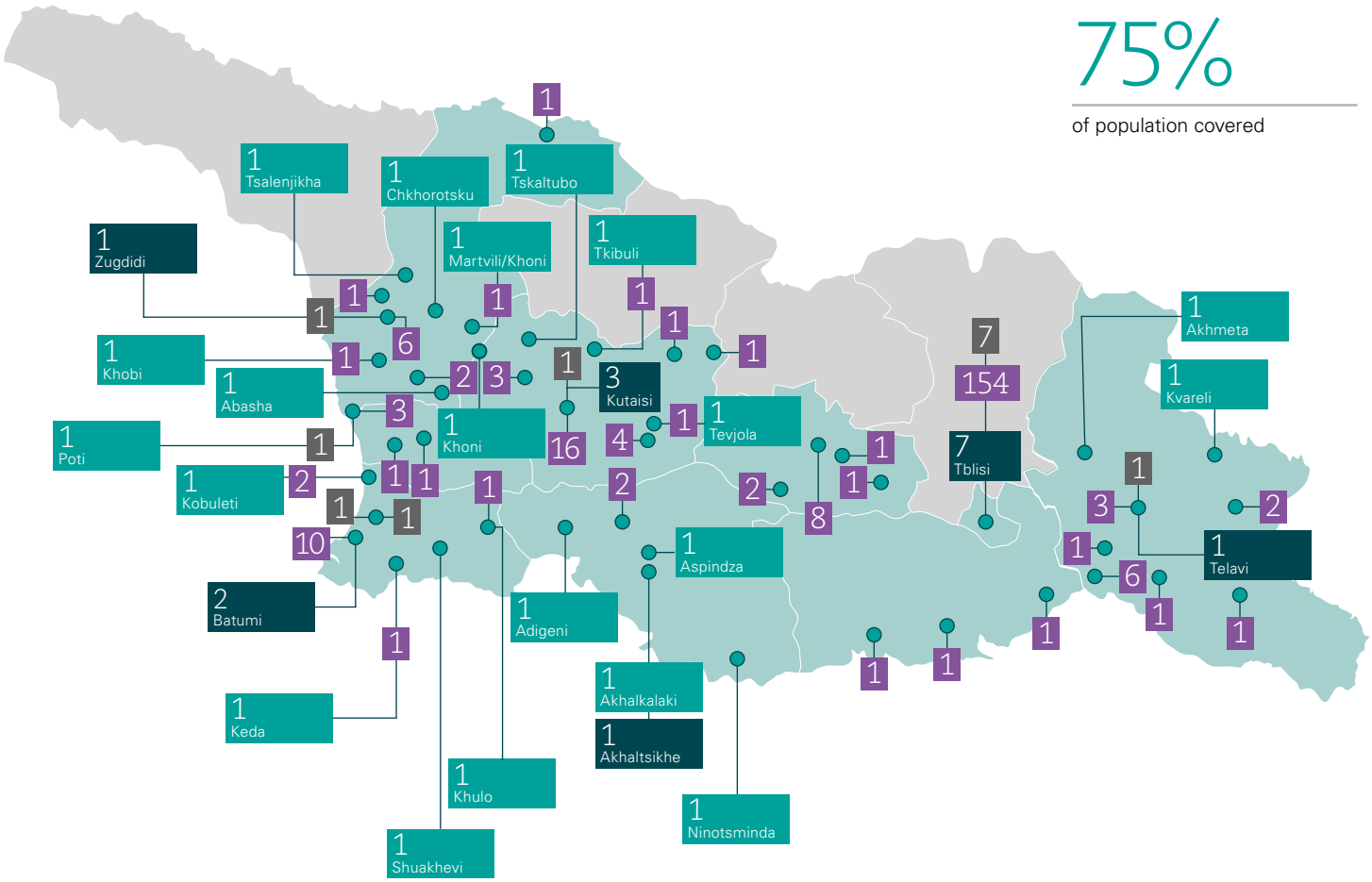
Strong management with proven track record

- **Strong business management team – increased market share by beds from under 1% in 2009 to 23.4%** currently, with built-in additional development capacity
- **Achieved our target of c.30% EBITDA margin ahead of time, delivering 31.9% healthcare services EBITDA margin in 4Q16 and 30.2% in 2016**
- **Robust corporate governance:** leader in Georgia's healthcare sector, as the only Premium listed company in the industry (LSE:GHG LN)[10]; 65% shareholder is BGEO Group PLC as of 31 December 2016 – listed on the premium segment of the main market of the London Stock Exchange (LSE:BGEO), part of FTSE 250 index. The rest of shares are owned by Institutional Investors and Management as part of Employee Stock Ownership Plan ("ESOP")
- In-depth knowledge of the local market

Sources:
1 Market share by number of beds. Source: National Centre for Disease Control and Public Health ("NCDC"), data as of December 2015, updated by GHG to include changes before 31 December 2016. Additional development capacity at Deka and Sunstone of c.600 beds.
2 Market share by gross revenue; Insurance State Supervision Service Agency of Georgia as of 31 December 2016.
3 Geostat.ge, data as of 2015. Coverage refers to geographic areas served by GHG facilities.
4 GHG internal reporting.
5 National Centre for Disease Control and Public Health statistical yearbook 2015.
6 Euromonitor, World Bank's 2012 "Ease of Doing Business Report", other public information.
7 Ranked #24 (of 189 countries) in World Bank's 2016 "Ease of Doing Business Report", ahead of all its neighbouring countries and several EU countries.
8 Ministry of Finance, Ministry of Economy.
9 Frost & Sullivan 2015.
10 GHG Group PLC successfully completed its IPO of ordinary shares on the premium segment of London Stock Exchange on 12 November 2015.

Extensive geographic coverage

Network of healthcare facilities and pharmacies



75%
of population covered

2,557
hospital beds

15
referral hospitals

20
community hospitals

10
ambulatory clusters with

243[1]
pharmacies

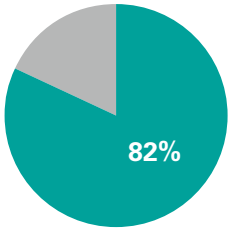
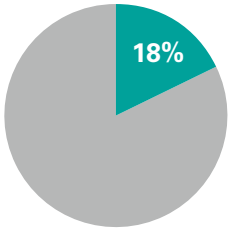
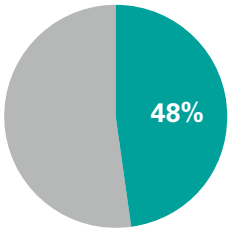
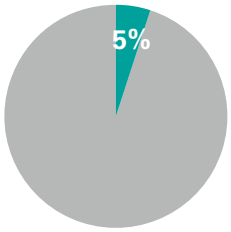
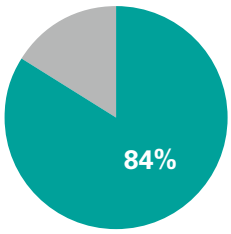
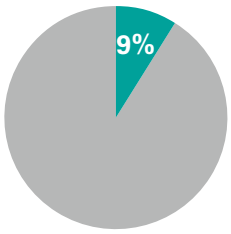
13
district ambulatory clinics and

28
express ambulatory clinics

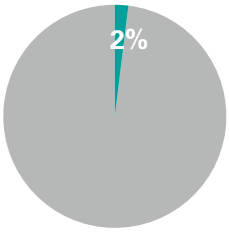
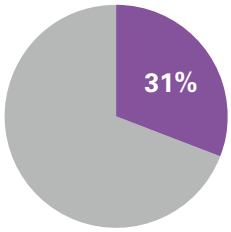
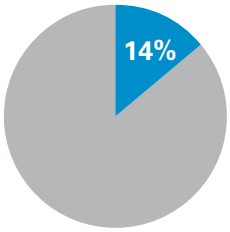
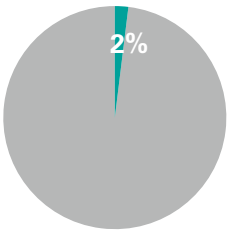
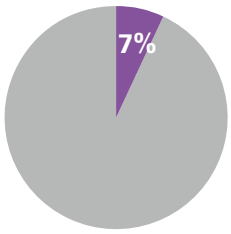
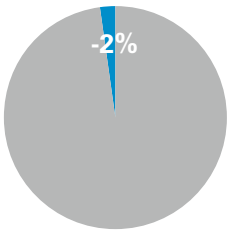
Note:
1 Including ABC's pharmacies.

At a glance continued

Segment overview

Key segments	Healthcare services	
	Referral hospitals	Community hospitals
Key services	General and specialty hospitals offering outpatient and inpatient services in Tbilisi and major regional cities	Basic outpatient and inpatient services in regional towns and municipalities
Market size[1]	GEL 1.2 billion (2015)	
Market share	20% by revenue[2] **23.4% by beds** (2,557), which is expected to grow to c.29% as a result of renovation of recently acquired hospital facilities (additional c.600 beds)	
Selected operating data 2016	15 hospitals 2,092 beds 	20 hospitals 465 beds 
Financials 2016 Gross revenue **GEL 426.4 million**[5]	GEL 211.8 million 2012-2016 CAGR **53%** 	GEL 22.8 million 2012-2016 CAGR **16%** 
EBITDA **GEL 78.0 million**	GEL 65.7 million 2012-2016 CAGR **61%** 	GEL 6.8 million 2012-2016 CAGR **33%** 
	EBITDA Margin: 30.9%	EBITDA Margin: 29.9%

Sources:
1 Frost & Sullivan analysis, 2015.
2 For hospitals and ambulatory clinics, 2016 market shares represents management estimates.
3 Market share for pharma business includes ABC and is based on 2015 year's revenue figures, for competitors it represents management estimates.

	Pharma	Medical insurance
Ambulatory clinics	**Pharma**	**Medical insurance**
Outpatient diagnostic and treatment services in Tbilisi and major regional cities	Wholesaler and urban-retailer, with a countrywide distribution network	Range of private insurance products purchased by individuals and employers
GEL 0.9 billion (2015)	GEL 1.3 billion (2015)	GEL 0.17 billion (2015)
1.5% by revenue[2]	29% by revenue[3]	35% by revenue
10 clusters with 13 district ambulatory clinics 28 express ambulatory clinics	243 pharmacies in major cities[4]	211,000 individuals insured
GEL 11.6 million 2012-2016 CAGR **30%** 	GEL 133.0 million 	GEL 61.5 million 2012-2016 CAGR **15%** 
GEL 1.8 million 2012-2016 CAGR **36%** 	GEL 5.7 million 	GEL -2.0 million 
EBITDA Margin: 15.1%	EBITDA Margin: 4.3%	EBITDA Margin: -3.3%

Notes:
4 Including ABC's pharmacies.
5 Revenue net of intercompany eliminations.

Chairman's statement

GHG delivered an excellent year in 2016 in a number of important areas

Dear Shareholders,

I am honoured to report that GHG delivered an excellent year in 2016 in a number of important areas. I want to particularly emphasise three of those. First, GHG delivered an exceptional performance on the strategy announced at the time of its IPO in November 2015, building on an unprecedented period of growth over the past two years. Second, GHG diversified into the pharma business – an important move to unlock more value from our business and solidify GHG's leading position in the healthcare ecosystem in Georgia. Last, but certainly very important, GHG's management team continued to get stronger at the senior and middle management level – growing our management team is a priority of ours and I am particularly proud to see such meaningful progress in this direction.

You can see the details of the financial performance, execution perspective and business priorities at a granular level in the CEO letter later in this report. I would like to cover four important points in this letter:

- the key drivers of GHG's growth in 2017 and beyond;
- GHG's growth prospects are supported by attractive macro-economic performance and the Georgian Government's healthcare policy;
- robust corporate governance drives our returns; and
- GHG's management team is growing stronger than ever.

The key drivers of GHG's growth in 2017 and beyond

We will continue the development of new, high-quality medical services in Georgia, particularly focusing on elective care, to cover existing service gaps. Despite significant recent reforms in the Georgian healthcare system, there are still many service gaps in Georgia which, as the largest provider of healthcare services in the country, GHG is focused on covering. These are services which either do not exist or are currently of low quality. Patients often bridge this gap by travelling to hospitals abroad, the spending on which is estimated at approximately US$100 million. Covering medical service gaps in Georgia by developing new services and institutionalising improved quality makes us proud of the work we do for our patients. We strongly believe that by investing in the healthcare market in Georgia, we will support an increase in the quality of care for the Georgian population, throughout the country. During 2016, we have launched over 60 new services in different locations and many more are under development. *You will have an opportunity to read more about the service gaps and what we do to cover them later in this report.*

We will continue the roll out of our outpatient clinics, because this is a highly fragmented and underserved market where we see a significant opportunity for growth. During Soviet times, we used to have "polyclinics" in Georgia. They were many – in neighbourhoods close to home. Citizens were assigned to one of those "polyclinics" for all kinds of outpatient services. With the collapse of the Soviet Union, many "polyclinics" closed, some significantly shrank and all became dilapidated. It may seem paradoxical that the Georgian healthcare services sector has seen much investment and development in recent years and yet the market of "polyclinics" or their equivalents is still so underdeveloped. This is because Georgia's recent healthcare reforms and the subsequent investments were primarily targeted at hospitals to ensure the population had access to the much needed hospital level care. GHG is already the largest provider in this segment with the outpatient clinics that are the first of their kind in the country, but in a way our clinics are a modern version of the well-known concept of "polyclinics". We see the same opportunity now in the fragmented outpatient sector that we saw in the hospital business a number of years ago. We aim to grow footprint and utilisation quickly, to achieve by 2018 c.5% share of this market that is expected to be valued at approximately c.GEL 1 billion. We aim to significantly increase cross-referral synergies with our pharmacies and medical insurance to drive high utilisation of our "polyclinics".

Investing in information systems will be our next priority to identify ways in which we can provide better service to our patients and deliver more value to our shareholders. With the scale and diversity of GHG's business, we are best positioned to lead the way in the digitalisation of patient records in Georgia. We have made this a key priority and are taking significant steps to make it happen. I am glad that we have a strong IT team that will lead this very important transformation throughout the organisation.

GHG's growth prospects are supported by attractive macro-economic performance and the Georgian Government's healthcare policy

During 2016, Georgia once again demonstrated its commitment to European standards and norms by ensuring full and fair democratic parliamentary elections. Georgia has continued to deliver a remarkably resilient economic performance, with real GDP growth at 2.7% in 2016. In addition, Foreign Direct Investment continued to be strong, and tourist numbers – a significant driver of Dollar inflows for the country – continued to rise significantly.

Georgia is an open and resilient emerging market with a realistic ambition to transform itself into a regional hub economy. Georgia is consistently ranked as a top performer in governance and "Doing Business" indicators, in economic policy and institutional assessments tracked by well-respected international institutions. Georgia was named a top performer globally over the past 12 years in the latest "WB-IFC Doing Business" report. The Government's four-pillar reform programme, and its deepening economic integration with the European Union is expected to boost the economy's productive capacity, support further economic diversification and attract more foreign investment. Access to healthcare remains one of the Government's top priorities. Since the full rollout of UHC in mid-2014, government expenditure on healthcare has grown considerably, increasing to over 100% from GEL 487.9 million in 2013, to GEL 996.0 million in 2016.

Robust corporate governance drives our returns

In my letter last year, I provided significant detail about the governance structure, the way the Board works and the composition of our Board. A year later, I am particularly proud about the important role that the GHG Board continues to play in growing the institution. Therefore, I would like to highlight several critical thoughts:

- At GHG, we remain strong believers that great institutions are only built with robust governance, and that without it they cannot deliver sustainable value for their shareholders. I am happy that at GHG we have built a Board that is independent, highly engaged, has diversity of thoughts, is able to provide strong oversight together with valuable advice, guidance and coaching to the top and middle-level management teams. I am proud that we continue to enrich the Board and management and continue to attract high quality people with relevant experience in the delivery of quality healthcare.
- We want our managers to act as shareholders, which they are. The remuneration structure that we have for the management at GHG naturally aligns the interests of shareholders and the management team. This is achieved by awarding, as part of their remuneration package, long-term vesting shares (up to five years) to the executive management team and ensuring that this share-based compensation makes up a large proportion (e.g. 80-85%) of total annual compensation. If shareholders make money, the management team makes money and if the shareholders lose money, the management team also loses money. In this way, we create a long-term alignment between the interests of the management team and the shareholders. This structure makes the Board's job of oversight easier.

GHG's management team is growing stronger than ever

Attracting, growing and enabling the management team to perform at their best is our number one priority. Management makes things happen at GHG and I am proud that the majority of our management at GHG has been with us for several years, and the team has grown together with the organisation. From time to time, we also enhance our management team through hiring externally. Still, promoting internally is our preference. GHG's team is young, motivated, capable and most importantly, eager to learn and do more, dedicated to the performance of the organisation and to helping each other to deliver. We get the benefit of a double effect from GHG attracting talent, and that strong talent attracting great new talent.

At GHG we have a culture of delegation, accountability and coaching – cornerstones of people development in our organisation. We provide opportunities for our management to grow through challenging and diverse experiences. We do this through promotions and rotations. We are a meritocratic organisation. We value results and we also coach our management to unlock their best potential. Our senior team members have access to leadership coaching. Our middle management has access to targeted courses around management and leadership development, developing into the next tranche of leaders, and enhancing the management team at GHG.

I am proud to recap 2016, which proved an excellent year for GHG. I am honoured to continue to serve as the Chairman of this great institution and the team, and I look confidently to the future growth of GHG.

Irakli Gilauri
Chairman
13 April 2017

Chief Executive Officer's statement

2016 was another extremely strong year for Georgia Healthcare Group

2016 was another extremely strong year for Georgia Healthcare Group, as the Group continued to build strongly in all areas of the wider Georgian healthcare ecosystem including, for the first time, in the pharmaceutical retail and wholesale sector. We are delighted with our progress towards creating the highest quality hospital and primary healthcare system in the country while delivering the best outcomes, with high patient satisfaction and the best facilities supporting significant improvement in the quality of care in Georgia.

During the year, the Group continued to grow its operations both organically and via acquisitions. We have made significant progress in the implementation of our strategy to develop a nationwide chain of outpatient clinics, subsequently growing our capacity to provide quality outpatient services to a much larger part of Georgia's population. We increased the number of district outpatient clinics from seven to 13 during 2016, as well as now having 28 express clinics in operation. In May 2016, we completed the acquisition of GPC, one of the largest retail and wholesale pharmacy chains in Georgia. GPC operates a countrywide network of 118 pharmacies in major cities. The acquisition created a number of substantial purchase synergy opportunities, as well as significant potential for increased customer acquisition in our outpatient business. In addition, in January 2017, we completed the acquisition of the Pharmadepot chain of pharmacies – the fourth largest pharma retailer in Georgia (operating with 125 pharmacies) – which has made GHG the market leader in the pharma segment with c.29% market share by revenue. I am delighted that the integration of these two large retailers is going smoothly and is fully on track.

The 2016 results clearly reflect these significant developments, and I am pleased to report a net profit of GEL 61.3 million, a 159.7% increase year-on-year from GEL 23.6 million in 2015. These results were, however, affected by the impact of a number of one-off items and business changes, net effect of which increased profit by GEL 21.7 million, the largest of which was the deferred tax release due to a corporate tax legislation change. On an operational basis, the Group made extremely good progress during the year with net revenues up 74.8% to GEL 423.8 million; EBITDA up 39.0% to GEL 78.0 million; and profit before income tax expense up 70.2% to GEL 40.2 million. Within this strong year-on-year performance, the Group continued to build strongly on a sequential basis, with record high revenue in both the healthcare services business and the pharma business. Profit before income tax expense in the 4Q of 2016 was GEL 13.0 million, up 156.9% on the 4Q of 2015, and up 25.6% on the 3Q of the year, giving the Group a strong earnings tailwind going into 2017.

The Group's overall performance continues to be driven by the healthcare services business which delivered net revenues of GEL 243.5 million, supported by 16.3% organic revenue growth and a 280 basis point EBITDA margin improvement to 30.2%.

In our healthcare services business, the Group's key strategic priorities are: to achieve one-third market share by hospital beds; to deliver a rapid launch of outpatient clinics in the highly fragmented and underpenetrated outpatient market; and to invest to close existing medical service gaps in Georgia. During 2016, we continued to make significant progress in each of these areas.

The renovation work on both our Deka and Sunstone hospital facilities in Tbilisi has continued. In August, we opened one of the largest diagnostic centres in Georgia as part of the Deka hospital – the first step in developing Deka into a flagship multi-profile hospital for the country which we will also leverage to retain those patients currently going abroad for healthcare diagnostics and treatment. The renovation at Sunstone has been completed ahead of time and we are pleased to have recently received the first patients into this new multi-profile hospital. The opening of Sunstone enables the population of the eastern part of Tbilisi and the whole of the Kakheti region to get access to significantly improved healthcare services closer to their homes.

Another key milestone for our development is more focus on planned and elective services. GHG hospitals have the best reputation in the country in treating emergency and complex cases which we can further build on in terms of planned and elective services. We have already implemented a strategy for that and will be developing further in some areas and services which we believe will increase our diversification and efficiency. We are currently in the process of launching more than 60 new services in more than ten of our referral hospitals. These services are primarily targeted at filling service gaps that currently exist in Georgia either due to the unavailability of the service or its poor quality. Our new service launches include a number of sophisticated services such as oncology, transplantation of bone marrow and paediatric kidney transplants, as well as services such as paediatrics, neonatology and ophthalmology. Our main focus in 2017 will be to increase our presence in the Tbilisi market, where we see substantial room to grow, especially in elective services.

Our strategy to increase our share of healthcare revenues through the roll-out of a nationwide network of outpatient clinics has continued and we grew the number of our district clinics from seven in December 2015, to 13 in December 2016, with revenues from this part of the business increasing more than 120% year-on-year.

During 2016, we made significant progress in monitoring and improving a number of clinical quality indicators within our referral hospitals and more improvements are planned in 2017. In this direction, we are involved in number of initiatives such as training professionals in clinical quality areas and in the internal process of development and implementation of clinical quality activity programmes and standards. In 2016 six such programmes were developed and already implemented in ten of our hospitals. During the year, we worked closely with the Centres for Disease Control and Prevention ("CDC"), the United States local representative office in south Caucasus. With our and CDC's joint efforts, we implemented an infection control and prevention programme at three of our healthcare facilities. Our local team, which worked with CDC on this project, continues to implement the programme at our other hospitals as well.

2016 was a particularly busy year for us in terms of expanding into the pharma business and becoming the largest company in this market. In May we completed the acquisition of GPC, one of the largest retail and wholesale pharmacy chains in Georgia, and have made substantial progress with our integration activities. With important synergies from the GPC acquisition already having been captured, we are comfortably on track to deliver our initial guidance on synergies, and more than tripled the EBITDA margin in 4Q to 6.0%, from 1.8% in 2Q 2016.

We believe, however, that the biggest value enhancement from the GPC acquisition is the potential for increased customer acquisition for our outpatient business through GPC's one million customer interactions per month and 0.5 million loyalty programme users and we have already started to explore this opportunity. In August, we launched a bundled product for our pharma and outpatient businesses to access around 500,000 GPC customers who have never been to our outpatient facilities, and we expect to direct over 10,000 new customers per month from our pharmacies to our clinics.

In addition, in November 2016 we announced the acquisition of ABC, the fourth largest player in the Georgian pharma market and owner of the Pharmadepot chain of pharmacies. We completed the transaction in January 2017, and as a result GHG has become the market leader in the pharma market (with c.29% market share by revenue) in Georgia. The Pharmadepot acquisition has a strong strategic fit with our existing business model. We aim to keep both brands, as they have a distinct positioning in two customer segments: GPC for higher-end customers and Pharmadepot for the mass retail. Together with the strong Pharmadepot retail franchise, we also brought their strong management team to the Group, and they are now leading our integrated pharma business. This new team brings an excellent track record of growth and execution that managed to grow a niche wholesale company into one of the largest pharma retailers in 4-5 years. The integration process is ongoing and I'm pleased to announce that it is going smoothly and is expected to be finalised in the second half of 2017 as anticipated. We are confident that we will achieve the key efficiency metrics that we have targeted for the combined pharma business and, as a result, create substantial value for our shareholders.

Apart from significant cost synergies in areas of procurement and administrative expenses, we aim to focus on three main areas in the combined pharma business over the next two to three years: decreasing the cost of goods sold/cost of services by realising captive cost synergies and manufacturer cost synergies; enhancing the retail margin by launching generic, contract manufactured and private label products; and expanding sales to hospitals and other small players in pharma. We will be further expanding our footprint selectively both in large cities as well as in many regions of Georgia, and will realise additional revenue synergies in healthcare services from the traffic from our combined pharma business that we expect to average two million customer interactions per month.

Our medical insurance business had a more challenging year, particularly reflecting the loss-making impact of one large corporate insurance contract. This contract has now expired and has not been renewed. As a result, we expect to see a stabilisation of earnings in 2017, compared to a loss of GEL 4.9 million in 2016.

One of our main priorities: people development, continued to be high on our agenda throughout 2016. The depth of our senior management team continued to improve with the recruitment of several high performing key executives. In addition, 25 executives from our mid-level management team completed a tailored six month course for them to improve their leadership and managerial skills. On the clinical side, we continued to focus on the education and training of our doctors and nurses. Our residency programme, which is a very important part of our strategy to develop a new generation of doctors, became the most popular residency programme in the country among resident doctors and, with 58 residents currently in our system, we anticipate accepting a further c.100 in 2017. Our nursing training college is also now fully functional, and we will be further increasing its scale during 2017. People development, one of our key success factors, will remain a top priority in 2017 as well.

Focus on IT development, will be another key objective for us in 2017 and beyond and the recent management reshuffle and strengthening in this field was done to further support this goal. In 2016 we successfully rolled out an integrated Enterprise Resource Planning ("ERP") system and a core billing and registration module in our healthcare business. We are going to increase this IT focus over the next few years, as we believe that our superior IT competencies will be key for our success as we look for GHG to move to the next level of development in the provision of integrated services across the whole patient pathway.

We remain comfortably on track to deliver a more than doubling of 2015 healthcare services revenues by 2018. Healthcare services net revenue increased by 27.2% year-on-year in 2016, with organic revenue growth of more than 16%. In addition, the rapid roll-out of our nationwide outpatient clinic model, and our significant new participation in the Georgian pharmaceuticals market will continue to create further business development and cost efficiency opportunities over the next few years. At the same time, we continue to expect the overall Georgian healthcare services market revenues to grow at a double-digit rate per annum over the next few years, development of which, alongside with UHC programme, remains as one of the top priorities for the Georgian Government.

The Group delivered a strong performance in 2016, and remains in good shape to benefit over the next few years from the combination of its position as the largest healthcare services provider, pharmaceuticals wholesaler and retailer and medical insurer in what continues to be a fast-growing, predominantly privately-owned, Georgian healthcare market. As a result, the Group is well positioned to deliver further strong growth in 2017 and beyond.

Nikoloz Gamkrelidze
Chief Executive Officer
13 April 2017

This Strategic Report, set out on pages 2 to 80 was approved by the Board of Directors on 13 April 2017 and signed on its behalf by Nikoloz Gamkrelidze, Chief Executive Officer.

Nikoloz Gamkrelidze
Chief Executive Officer
13 April 2017

Industry and market overview

Georgia

N° 1

Reformer for the 4th time
in the past 12 years
2017 (WB Doing Business Report)

Georgia

N° 11

Business Bribery Risk
2014 (Trace International)

Georgia

N° 13

Economic Freedom Index
2017 (Heritage Foundation)

Georgia

N° 16

Ease of doing business
(WB-IFC Doing Business Report 2017)

Fuelled by Liberal Reforms

Georgia is the top improver on the World Bank's Ease of Doing Business report since 2005, rising from 113th in 2005 to 16th in 2017.

- Georgia has implemented one of the most radical market and Government reforms and programme of economic liberalisation in the former Soviet countries.
- Massive privatisation led to a reduction of the public sector and its influence on the country's economy.
- Significant improvement in the business environment resulted in annual Foreign Direct Investment ("FDI") inflow to average 10% of GDP during 2005-2016.

Georgia's macro overview and outlook

Georgia – an open and resilient emerging market with a realistic ambition to transform itself into a Regional Hub Economy. The Government's four-pillar reform programme and deepening economic integration with the European Union ("EU") is expected to boost the economy's productive capacity, support further economic diversification and attract foreign investments. Measures to sustain fiscal discipline and increase the usage of local currency are expected to insure macroeconomic stability, strengthen resilience to external headwinds and boost growth in 2017 and beyond.

The country is ranked 16th out of 189 economies in the World Bank's 2017 Ease of Doing Business, 13th out of 180 countries by Index of Economic Freedom measured by Heritage Foundation in 2017 and 11th out of 197 countries in the Trace International's 2014 Matrix of Business Bribery Risk. With only 7% of people admitting to having paid a bribe according to the 2016 Global Corruption Barometer study by Transparency International, Georgia is on a par with EU member states. Georgia once again demonstrated its commitment to European standards and norms by ensuring 2016 democratic parliamentary elections. After the elections, Georgia's ruling Georgian Dream party introduced a package of legislative changes to support the implementation of the Government's four-pillar reform programme (introduced in February 2016) to boost growth and enhance the economy's resilience to external shocks. The programme includes new tax benefits, infrastructure schemes, governance reforms and modernisation of the education system.

Over the past decades, Georgia carried out genuine economic and structural improvements which were institutionalised. As a result of eradicated corruption, doing business became easier, productivity was enhanced and the economy diversified – enabling the country to withstand recent shocks related to the commodity price slump with a relative strength. The real GDP growth averaged 4.5% annually during 2007-2016. The economic Liberty Act, effective since January 2014, ensures continuation of a credible fiscal and monetary framework for Georgia, by capping consolidated Government expenditures at 30% of GDP, fiscal deficit at 3% of GDP and public debt at 60% of GDP. The Liberty Act also requires electorates' approval for a nationwide referendum for imposing new taxes and raising existing tax rates, subject to certain exceptions. Georgia has one of the world's most friendly tax regimes according to Forbes Misery Tax Index. It has slashed the number of taxes from 21 in 2004 to just six. Furthermore, effective since January 2017, corporate income tax is applicable to only distributed profits, as undistributed profits, whether reinvested or retained, are exempted.

Healthcare services market

Georgia's healthcare services market (including hospitals and ambulatory clinics) was estimated to be worth GEL 2.1 billion in 2015, which represents only 5.8% of Georgia's GDP. The market has maintained a strong compound growth momentum of 13.5% between 2011 and 2014, and is expected to continue growing at 13.3% between 2014 and 2018. Since the full rollout of UHC in mid-2014, Government expenditure on healthcare has grown considerably, increasing 104.1% from GEL 487.9 million in 2013 to an GEL 996.0 million in 2016, according to the approved Government budget for 2016.

Healthcare services spending per capita is currently at a very low base of only US$217, with annual outpatient encounters of only 4.0 per capita and hospital bed utilisation of only c.60%, all significantly lower than many comparable countries. For the past several years, supportive Government reforms and the engagement of private players in the sector have resulted in significant improvements in the overall standard of infrastructure and greatly boosted demand for quality healthcare services.

- The hospital market was GEL 1.2 billion in 2015 and this is forecasted to grow at a compound annual growth rate of 11.3% between 2014 and 2018.
- The ambulatory clinic market was GEL 0.9 billion in 2015 and is forecasted to grow at a compound annual growth rate of 15.9% between 2014 and 2018. Notably, the ambulatory market is highly fragmented, with no single competitor having more than 1% of the market.
- Currently, service gaps exist in a number of basic diagnostics areas and treatments, such as MRI, laparoscopic surgeries, oncology, paediatrics, neonatology, intensive care, cardiology and rehabilitation services.

Healthcare service providers (both state and private) generate revenue from out-of pocket payments (including fee-for-service and 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.

While the Georgian Government is the main source of hospital service financing in the country, the total Government expenditure on health is very low at 2.7% of GDP, compared to the 5.0% benchmark set by peer countries, which leaves significant room for growth. The Georgian healthcare industry has undergone a number of reforms and transformations during the last two decades. Favourable Government policy has resulted in the following:

- The privatisation and renovation of nationwide healthcare infrastructure including both "bricks and mortar" buildings and medical equipment, replacing rundown Soviet-era facilities (of total nationwide hospital bed capacity, over 75% is new and only c.10% is in the public sector).
- Increased access to healthcare through the Universal Healthcare Programme, which has provided basic healthcare coverage to the entire population since 2013. According to the International Monetary Fund ("IMF"), this reform should improve healthcare outcomes and make healthcare the largest area of reform in the country. Georgia has one of the lowest per capita expenditures on healthcare in the EU and the CIS. Management believes that there are strong prospects for growth in healthcare expenditure driven by both supply and demand.

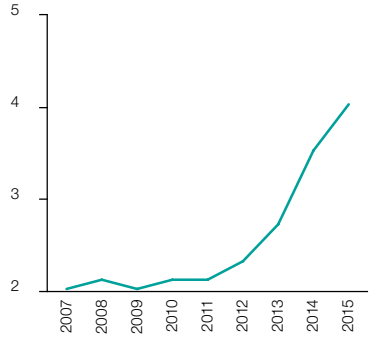
Outlook and main growth drivers

As described above, the Georgian healthcare services market has shown double-digit growth in recent years, standing at GEL 2.1 billion in 2015 and forecast to reach GEL 3.1 billion by 2018. The hospital segment accounted for 57% of all revenues generated in the healthcare market in 2014. According to forecasts by Frost & Sullivan, the hospitals segment is expected to grow at a compound annual growth rate of 11.3% from 2014 to 2018 to reach GEL 1.6 billion. The ambulatory clinic segment is forecast to outpace the total market and grow at a compound annual growth rate of 15.9% from 2014 to 2018 to reach GEL 1.4 billion by 2018. The main growth drivers for healthcare services in Georgia are the following:

- **Improving infrastructure to support demand.** Continued investment in healthcare infrastructure, mainly by private healthcare providers that continue to expand their businesses to address the growing demand for quality medical care from the population. This has included modernising Soviet-era hospitals, upgrading medical technologies, facilitating easier access to healthcare and the addition of over 150 new hospitals between 2007 and 2013 (with approximately 90% under private ownership). These developments also reflect an inflow of investments from strategic financial investors into the market given its high-growth potential. An increase in demand and hospitalisation rates is also expected as a result of the growing availability of affordable quality healthcare services, improving diagnostic services and increasing healthcare awareness in Georgia. By way of an example, according to analysis by Frost & Sullivan, the hospitalisation rate per 100,000 people in Georgia for cardiovascular diseases was 2.5 times lower than in EU countries, which indicates a large number of undiagnosed or untreated conditions. The resulting growth in hospitalisation rates could drive efficiency in inpatient facilities. Utilisation of beds in Georgia, as measured by bed occupancy rates, has the potential to increase by between 15 to 20 ppts.
- **Supportive Government healthcare policies.** Since its introduction in March 2013, the UHC has provided the entire population with access to basic healthcare and is expected to help increase demand for medical care, particularly hospital services. In addition, the Georgian Government has been steadily increasing the budget that it allocates to healthcare, including to the UHC and specific, disease-oriented, vertical programmes. According to budget announcements by the Georgian Ministry of Finance, healthcare spending is planned to amount to GEL 974 million in 2017, of which the addressable market for private healthcare providers (such as GHG) is GEL 810 million, including approximately GEL 660 million for the UHC and GEL 150 million for other healthcare programmes financed by the state, in addition to the UHC.
- Until September 2014, the majority of drugs in Georgia were sold without a prescription. Since then, the Government has introduced prescription requirements for over 6,000 types of medicines, including antibiotics, cardiovascular, hormonal, endocrine and oncology products that account for more than 50% of medicines registered in Georgia. This initiative drives demand for outpatient visits and reduces the widespread practice of self-treatment.

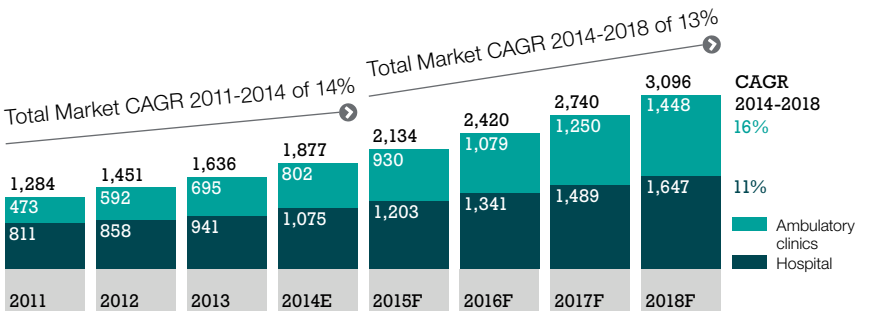
High growth in healthcare services market expected to continue

Low outpatient encounters per capita, annual



Source: NCDC 2015.

Double digit growth on the back of favourable dynamics expected (GEL million)



Source: Frost & Sullivan analysis.

Industry and market overview continued

- Analysis by Frost & Sullivan suggests that the extension of the UHC to cover ambulatory care, amendments to pharmaceutical regulations and increasing healthcare awareness in Georgia are all likely to contribute to the growth in outpatient visits in the coming years.
- **Double-digit growth in healthcare expenditure.** Total healthcare expenditure in Georgia increased by almost seven times between 2000 and 2012. However, on a per capita basis, healthcare spending remains low compared to certain emerging market peers (such as Thailand, Malaysia, UAE) pointing to further growth potential. At the same time, economic growth and rising disposable incomes of Georgian citizens, including in the regions outside Tbilisi, will also lead to higher spending on healthcare services, particularly in consideration of the potential growth of "top up" medical insurance to supplement basic UHC coverage and the increase of corporate medical insurance plans for employees. Improving facilities and standards have the potential to develop health tourism by attracting citizens of neighbouring countries and, conversely, retaining Georgians currently seeking treatment overseas.
- **Rapidly growing healthcare services market.** Historically high growth in the Georgian healthcare services market is expected to continue, supported by both the hospital and ambulatory clinic segments. Increasing health awareness and quality of services will lead to growth in demand for diagnostics. Between 2010 and 2013, the number of laboratory tests increased by 45%, from 5.5 million to eight million. The number of advanced diagnostic tests, including medical imaging, is also increasing. In the same period, the number of Computer Tomography ("CT") examinations has grown by 38% to almost 40,000. There has also been a growing demand for surgery and, in particular, advanced procedures – the overall number of surgeries performed is increasing by 9% annually in Georgia, which illustrates the growing demand for (and greater ability to deliver) such surgeries. In 2013 alone, the number of hip and knee replacements increased by 46% and the number of heart surgeries by 29%.
- **Favourable demographics.** The country has an ageing population, with an increasing proportion of its citizens aged over 60 who will require more frequent, better and prolonged treatments. Increasing incidence of certain lifestyle-related diseases (in particular, hypertension, ischemic heart diseases, cerebrovascular diseases and diabetes) will also boost demand for medical care. In addition, healthy fertility rates will drive demand for obstetric and child care services.

Universal healthcare programme

In March 2013, the UHC was introduced to address high private healthcare costs in Georgia. The UHC also supplemented and eventually replaced the existing two State Insurance Programmes ("SIPs"), making state-sponsored health coverage available on a significantly larger scale. The UHC is a Government-funded healthcare programme that provides basic healthcare coverage to the entire population, including more than two million people who had never held medical insurance and purchased healthcare services only on an out-of-pocket basis. Unlike the preceding SIPs, the UHC is not an insurance product but 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 and coverage exclusions, beyond which patients have to fund treatment on an out-of-pocket basis or rely on private medical insurance coverage. The key principles of the UHC are as follows:

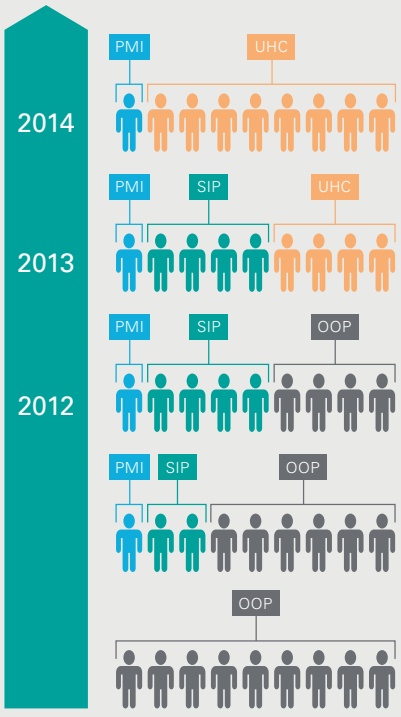
- The UHC covers basic outpatient elective services, most emergency care services, and elective inpatient services, subject to certain limits.
- The UHC is fully financed by the Government from tax revenues and administered by the Social Service Agency ("SSA") – a body under the Georgian Ministry of Labour, Health and Social Affairs). In most cases, beneficiaries have an annual limit of GEL 15,000 for planned procedures. For emergency admissions, the limit is GEL 15,000 per incident for all individuals, except those from certain socially vulnerable groups and children under six. For planned procedures, patients are required to obtain approval from the SSA prior to treatment. These thresholds limit the services that a patient can access and result in the need for co-payments by patients for elective services and certain emergency services. There is a maximum two-month waiting time to obtain approval for elective inpatient services.
- UHC beneficiaries are entitled to select any healthcare provider of their choice provided it is enrolled in the programme as a provider of the requested service.
- Any provider, whether private or state, is eligible to participate in the programme.

Pricing, reimbursement and settlement of services under the UHC programme

The actual prices that are charged to patients by healthcare providers are not

Expanding medical insurance coverage and creating opportunities for private participation (via top-ups) has been the key impact of the Universal Health Care reform

Healthcare coverage of Georgia's 3.7 million population



Source: Ministry of Health of Georgia.

OOP Out-of-pocket
UHC Universal Healthcare Programme
PMI Private Medical Insurance
SIP State Insurance Programme
PMI, UHC, SIP include co-payments

Key Principles of the UHC

Overview

- The UHC was introduced in February, 2013 and replaced most of the previously existing state-funded medical insurance plans
- The main goal is to provide basic healthcare coverage to the entire population

Financing and top-up mechanism

- UHC is fully financed by the Government
- UHC doesn't reimburse 100% of costs in most cases, leaving substantial room for top-up coverage including in the form of private medical insurance policies

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

regulated by the state. However, the reimbursement paid by the SSA to the healthcare providers under the UHC differs depending on the type of service provided and the location of the facility (in some cases reimbursement rates are higher in Tbilisi than in the regions).

Recent initiative to amend UHC

Currently the Government is planning to initiate changes to existing UHC model. According to this initiative, UHC coverage for each citizen will be determined according to their individual annual income level. The citizens whose annual income is:

- more than GEL 40,000, are expected to be excluded from UHC coverage;
- between GEL 10,000 and GEL 40,000, are expected to be partially covered by UHC with co-payments; and
- below GEL 10,000, are expected to be fully covered by UHC, including certain list of medicines.

The new initiative is currently at a discussion stage and is aimed to come into force from June, 2017. Implementation of this change may potentially expand private medical insurance market.

Healthcare service gaps

Despite significant reforms to the Georgian healthcare system, a number of healthcare service gaps remain, particularly in relation to the medical equipment available and the laboratory services provided in Georgia. There are limited numbers of the following items of medical equipment: magnetic resonance imaging machines (only three units in West Georgia), linear accelerator units (only six units in Georgia), gamma knife units (only one unit in West Georgia), positron emission tomography computers (only one unit in Georgia) and cardiac catheterisation laboratories (limited availability outside of Tbilisi). There are also shortages in Georgia 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 and pH meter units.
In addition, the Georgian healthcare system suffers from limited provision of the following laboratory services: no dedicated pathology laboratories for certain tests (samples are often sent abroad for testing), limited paediatric oncology services, limited rehabilitation services, no suitable In Vitro Fertilisation ("IVF") other than GHG's, no bone marrow transplant facilities, no molecular laboratories and no suitable genetic laboratories.

Service gaps in Georgia

Outpatient care

Outpatient encounters in Georgia are low at 4.0 a year, compared to the CIS average of 8.9 and European Region countries of 7.5, according to WHO.

Neonatology

Neonatal mortality was 60-80% of under five mortality during previous years, well above the 43% global average.

Laboratory services

- Number of lab tests are still sent to laboratories abroad.
- Pathology service is outdated and 30 years behind average European level.

Paediatrics

Biggest share in medical services import comes on paediatrics. While the culture of regular visits to the doctor at an early paediatric age is a favourable heritage from Soviet-times, the organised and good quality supply of such services is scarce.

Cancer

- Very low reported incidence levels.
- Malignant neoplasms incidence rate in Georgia is 140.3, compared to 543.7 in the EU, and the detection of over 30% of malignant neoplasms occur at stage IV.

Paediatric cardio surgery

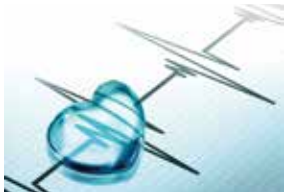
For almost 15 years, there was only one centre in Georgia that provided cardiology and cardiosurgery services for children. GHG opened its paediatric cardio surgery department in 2015, which is the second such facility in the country.

Maternity care

- Highest number of caesarean among the former Soviet Union republics – 41.4% of the total number of all deliveries in 2015.
- Maternal mortality ratio per live births three times higher in Georgia than in the European Region.

Cardiology

- Hospitalisation rate per 100,000 population that was 1,647 in 2014, which is two-fold less than in CIS and EU countries.
- Cardiovascular diseases represent 16.5% of deaths.



Emergency care

- Emergency units simply did not exist in Georgia until several years ago.
- Hospitals had to staff emergency units with over 15 different specialists, which decreased the quality and efficiency of the ER.

Critical care

The lack of quality of care in a number of areas in the Georgian healthcare system puts strain on critical care units, resulting in unnecessarily high occupancy of critical care units and inefficiency of care of the healthcare system in Georgia.

Industry and market overview continued

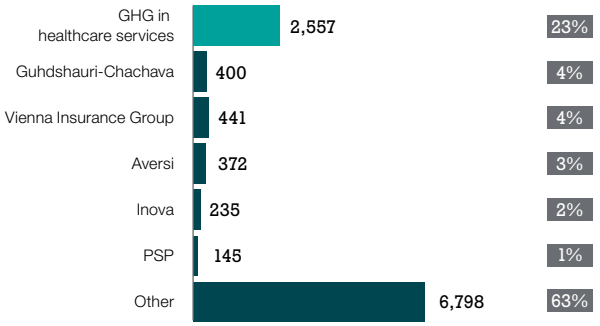
Competitive landscape

Both state and private healthcare providers (ambulatory clinics and hospitals) compete in the Georgian market, with private providers accounting for the vast majority of total supply in the country.

The market is relatively fragmented, with the six largest competitors (all of which are private) accounting for only a third of the total number of beds. The top 15 participants control 58% of capacity. This may indicate further growth potential for both new and incumbent market participants through mergers and acquisitions. The ambulatory clinics market is even more fragmented and no competitor controls more than a 1% market share, with the Group's own market share at 1.5%, as of 31 December 2016. Therefore it is likely that there will be further consolidation and the emergence of a large participant in the market via mergers and acquisitions.

Healthcare services (Hospitals)

Number of beds as of December 2016



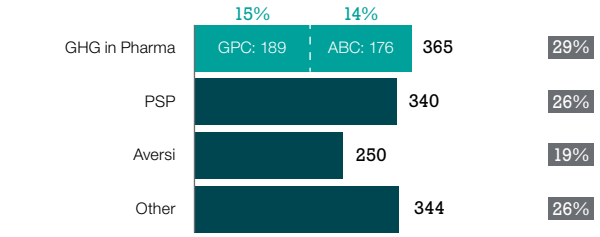
Source: NCDC, data as of December 2015, updated by GHG to include changes before 31 December 2016.

Pharma market

The pharma market in Georgia was estimated to be worth GEL 1.3 billion, which represents 38% of total healthcare spending in the country. The pharmaceutical market in Georgia was highly concentrated, with four major players, holding approximately 75% of the market share. After acquisition of the third and the fourth largest pharma players, GHG became the largest player on the pharma market and is now present in the whole Georgia healthcare ecosystem and maintains the leading position, with two main competitors in the pharma market: PSP and Aversi. Both pharma competitors are also presented in the hospital as well as medical insurance markets, with much smaller market shares than GHG. GHG therefore remains the only large player across all of these markets as the competitors have not managed so far to establish scalable businesses in the respective sectors.

Pharma

Revenue, GEL millions in 2015



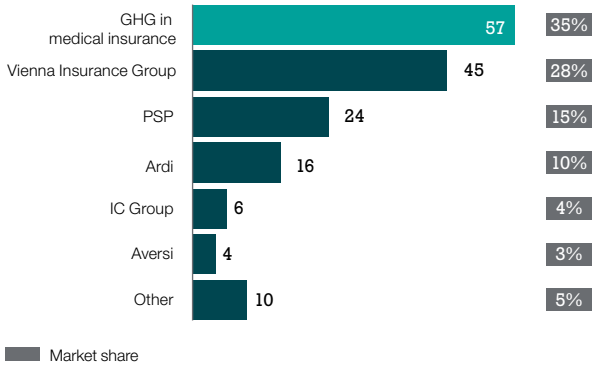
Source: Pharma business revenues for competitors are for 2015 year and represents management estimate.

Medical insurance market

As of 31 December 2016, c.543,000 voluntary medical insurance packages have been reported to the Insurance State Supervision Service of Georgia. For the past decade, the private insurance market expanded significantly compared to 2006 figure when only 40,000 Georgian citizens (or c.1% of the total population) had a voluntary medical insurance package, most of which were provided as part of a corporate benefits programme. Growing awareness of the benefits of medical insurance among the population in Georgia may lead to greater demand for private medical insurance from employers and self-paying customers who seek better quality of services, quicker treatment or more advanced procedures than are covered within the UHC framework.

Medical insurance

2016 gross premium revenue, GEL millions



Source: Insurance State Supervision Service Agency of Georgia.

People development in our healthcare services business

As Georgia's healthcare services industry was only recently privatised, the whole industry is in need of investment into the development of medical personnel, including the doctors and nurses, as well as support technicians and moreover, commercially-minded managers running the healthcare facilities.

We at GHG believe that investment in human capital and education is the most productive investment we can make. We made this area our top priority in 2014 and it will remain such for many years to come. Below we want to share our accomplishments in this area during 2016.

Our Learning Centre

Throughout the year, our healthcare services business has coordinated internal training process through its Learning Centre (the "Centre") founded in 2014. The Centre has two physical locations: one in Tbilisi that coordinates the learning process for hospitals located in the capital and another in Kutaisi that coordinates the learning process for regional hospitals. The Centre carries out the educational process for our medical as well as administrative personnel.

Healthcare services training programmes are in line with our clinical development strategy and support main medical directions: nursing, internal medicine, Infection Control ("IC"), obstetrician-gyneacology, emergency care, paediatrics and customer service excellence.

In 2016, our focus was around the following programmes:

- **Nursing training** with intensive five-month (106 hours) curriculum, tailored to meet nursing basic standards set in our healthcare services facilities. All of GHG's existing nurses and newcomers are obliged to undergo the different modules of the course. The course is led by nurse-trainers who have been trained by the healthcare services nursing department. During 2016, we carried out three different training modules for 2,299 trainees and newcomers. We finished 2016 with 2,869 nurses employed at our healthcare facilities.
- **Internal medicine training** is led by the Head of Internal Medicine Department and trainers. The course covers internal medicine fields, such as: respiratory system, cardiovascular system, gastroenterology, endocrine system, neurology, rheumatology, hematology, nephrology and urology. During 2016, 433 doctors were trained.
- **Infection control and prevention course** is coordinated with the joint efforts of our healthcare facilities and the Centre for Diseases Control and Prevention ("CDC") of the United States local representative office in south Caucasus. During 2016, 633 trainees – nurses, epidemiology and infection control specialists completed the different modules of the course.
- **Customer service standards training** is obligatory for all employees and new comers at our outpatient clinics and departments within hospitals. Employees who participate in this training are physicians, ambulatory nurses and patient registry specialists. During 2016, total of 565 participants were trained.

Apart from training given at our learning centre facilities, we sent our doctors for internships and study tours at leading European hospitals. For example, in 2016 two employees were sent to Warsaw, Poland's, "Centrum Zdrowia Dzecka" hospital for a two-month study tour, practicing children liver and renal replacement therapy.

Implementation of those services is expected to start at the Iashvili Tertiary Referral Hospital in 2017.

People development continued

Developing a new generation of nurses and doctors is high on our agenda and, to address this, we have launched 20 residency programmes and facilitated the opening of a nursing college at the leading medical university in Georgia.

Residency programme

In line with our strategy to develop a new generation of doctors, we launched residency programmes in a number of fields, including: paediatrics, neonatology, children's emergency care, children's neurology, anesthesiology and intensive care, laboratory medicine, obstetrics and gynaecology, children's cardio and rheumatology, radiology, general surgery, traumatology/orthopedics, children's surgery, internal medicine, endocrinology, children's endocrinology, oncology, radiation oncology, children's gastroenterology, neurosurgery, plastic and reconstruction surgery. These programmes are particularly important to source specialists in the fields where we have a shortage of doctors. The goal is to have medical specialists with high quality education and skills in most deficient fields in three years' time. Since the launch of the programme in December 2015, we have received 557 applications from prospective residents. Currently we have 58 talented residents involved in 12 specialties.

To incentivise and support top talent to enroll in our residency programme, we offer grants, student loans and employment after graduating from our residency program (post-graduation, they are required to work at GHG healthcare facilities for at least three years).

By the end of 2016, we received accreditations in seven additional fields with a total number of slots for admission of 65 residents over three years, bringing the total number of fields to 20 and a total number of slots for admission to 234. For 2017, we announced 110 slots for admission and received more than 400 applications:

Residency post-graduate programmes	Number of slots for admission in 2017
Radiology	16
General Surgery	15
Paediatrics	11
Traumatology/orthopedics	8
Children's surgery	8
Anesthesiology and reanimation	7
Neonatology	5
Internal medicine	5
Endocrinology	5
Paediatric ER	4
Obstetrician-gyneacology	4
Laboratory medicine	4
Children's neurology	3
Oncology	3
Radiation oncology	3
Children's gastroenterology	2
Children's endocrinology	2
Neurosurgery	2
Plastic and reconstruction surgery	2
Children's cardiac rheumatology	1
Total	**110**

Nurse college

We are investing in the development of two major hospitals in Tbilisi, as well as expanding our ambulatory clinics and investing in new services to fill the existing service gaps in Georgia.

We initiated and facilitated the opening of a joint Nurse College at David Tvildiani Medical University, a leading medical institution in Georgia. The college has an accreditation with a total number of slots for admission of 150 students, over three years. 60 of the most talented students were enrolled in October 2016 as a result of a rigorous application process. They will be trained according to international curricula to acquire necessary nursing knowledge and skills. The training course lasts for three years.

Also in 2016 we signed an exclusivity contract with the largest nursing college "Panatsea" (with a total number of slots for admission of 600 students over three years) – all the students graduating from the college will practice at our healthcare facilities. This is one of the oldest and most popular nursing colleges in Georgia. In 2017 the college plans to open branches in the Kakheti and Samtskhe-Javakheti regions where nursing colleges do not exist and our healthcare facilities have strong need of nurses.

GHG provides grants to the most successful candidates, offers student loans and employment to the graduates for a minimum of three years. These schemes are critical for us to partially address the country's shortage of nurses and we expect to recruit a majority of our nurses from this newly opened college in the medium to long term.

Leadership programme

In 2016, we launched a leadership programme for middle level managers. 25 managers started a five-month management course designed by the Bank of Georgia University, which is one of the top universities in Georgia. In 2017, we aim to have an additional 50 managers enrolled in this leadership programme.

We plan to provide more leadership development opportunities to our middle management in 2017, including study tours and internships in foreign hospitals.

Continuous Medical Education ("CME")

At our healthcare services facilities, we conduct more than ten national CME accredited short courses, out of which two post-graduate programmes, paediatric ER and family medicine, were accredited by the Ministry of Healthcare in 2016. Our CME programme included Fundamental Critical Care Support ("FCCS") which was delivered by Mayo Clinic experts through two years training of our in-house trainers. Now we have the unique capacity to deliver FCCS to medical personal on a national scale in Georgia.

On-the-job training for healthcare services medical personnel

To further advance and develop our healthcare services personnel, from 2014 we started the process of inviting experienced doctors, working abroad, to conduct on-the-job trainings at our healthcare facilities. The doctors lead several key medical services at our hospitals and simultaneously provide on-the-job training for local specialists. Some of them are Georgian nationals, repatriated and eager to participate in development of medical services in Georgia.

At Kutaisi Regional Referral Hospital, where we operate one of the largest Oncology Centres in the country, a number of on-the-job training programmes were conducted. Since its opening in 2015, the local team worked and received high quality on-the-job trainings from the team of the following experienced doctors working abroad: Dr Krystyna Danuta Kiel – radiation oncologist from Rush University Medical Centre, Chicago IL; Mr Gocha Khelashvili – medical physicist from Northwestern Memorial Hospital Chicago, IL; and Dr Zaza Ujmajuridze medical and radiation oncologist from University Hospital Region Zealand and University Hospital Copenhagen, Denmark.

Another successful case of foreign doctors' involvement to develop national specialists and improve the quality of care throughout the country was at Iashvili Paediatric Tertiary Referral Hospital, where the local team from the children's cardiac surgery department were trained by a team of Italian colleagues led by Dr Paata Kalandadze, a cardiac surgeon from "The Heart of Children", in Bergamo, Italy.

Furthermore, the first liver transplantation in Georgia was performed in Batumi Regional Referral Hospital by the team of surgeons trained and supported by Indian transplant surgeon Dr Sanjay Kumar Goja from Medanta Institute of Liver Transplantation and Regenerative Medicine Deli, in Gurgaon, India.

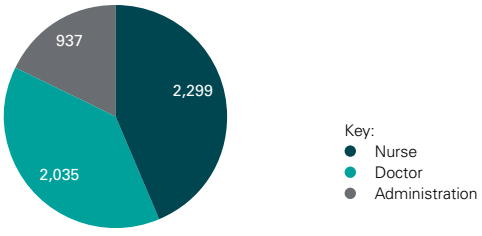
In 2016 at the Caraps Speciality Referral Hospital ("Caraps Medline"), an upscale boutique hospital of the Group particularly renowned for gynaecology and plastic surgery services in Georgia, we launched an in vitro fertilisation service. A distinguished embryologist from Turkey, Dr Unal Suat who has 20 years' experience, was invited to set up the service at Caraps Medline with the objective to develop a local team of embryologists.

Investment in people development

In total, GHG's healthcare services business invested GEL 2.0 million in education and training activities in 2016. We intend to invest a similar amount in 2017.

Annual statistics of healthcare services educational and training activities coordinated internally and outsourced are:

Number of trainees in 2016



A vertically integrated care pathway

Our well-established hospital network allows a seamless patient treatment pathway from local doctors to multi-profile hospitals whilst the pharma and medical insurance businesses play a feeder role in originating and directing patients.

We operate a highly-integrated patient capture business model. Our ambulatory clinics and hospitals are organised in specific geographic clusters to provide services to the broadest range of patients with:

- ambulatory clinics offering outpatient services;
- community hospitals offering broader outpatient and a range of multi-profile inpatient healthcare services; and
- referral hospitals offering a comprehensive range of complex and specialist services.

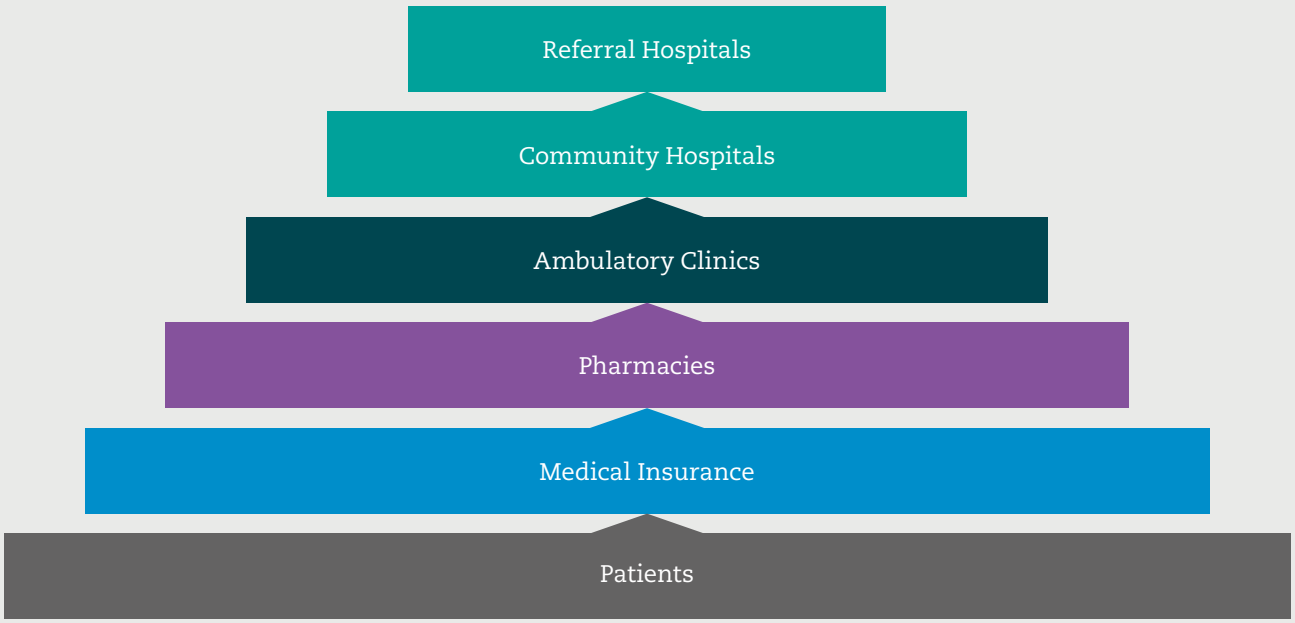
The referral hierarchy within each geographic cluster provides patients with a complete treatment pathway, from local physicians via ambulatory clinics and community hospitals to referral hospitals, optimising utilisation of our facilities and medical personnel. Our specialist ambulances help to achieve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

Our pharma business solidifies our strategic goal to have a strong presence across the healthcare eco-system. Following the completion of the two major pharma acquisitions in May 2016 and in January 2017, we became the largest pharmacy chain in the country with c.29% market share, which should help us to grow our ambulatory business, where we hold only 1.5% market share. The pharma business enhances GHG's existing "patient capture" business model through its strong customer loyalty franchise with over two million monthly customer interactions and 0.5 million members of its loyalty programme, and is expected to drive additional referrals to GHG's ambulatory clinics. Furthermore, the pharma business is a pure out-of-pocket business and it helps us further diversify our revenues. The pharma business strengthens GHG's position as the major purchaser of pharmaceutical products in Georgia.

Our medical insurance business also plays a feeder role in originating and directing patient traffic to our healthcare facilities. Customers insured by us may also use the services of competitor healthcare facilities. However, we are pleased that in a system where patients have free choice of providers to see so many choosing the high-quality services in our ambulatory network. Other reasons insurance customers prefer to use our hospitals and ambulatory clinics are co-payment incentives and direct settlement of claims. Our clinics are directly paid by our medical insurance business whilst patients must pay for and seek reimbursement for most medical care provided by other healthcare providers.

Our pharma and medical insurance businesses are becoming increasingly synergistic, through cross-sales, consolidated discounts and an increasing claims retention ratio within the Group.

GHG operates a highly integrated patient capture business model



Healthcare services

15

Referral hospitals provide **secondary and tertiary level** healthcare services.

Operating 2,092 beds

Referral hospitals

We operate 15 referral hospitals, of which 13 are general hospitals and two are specialty hospitals, with a total of 2,092 beds as at 31 December 2016. These hospitals are located in Tbilisi and major regional cities and provide secondary or tertiary level outpatient and inpatient diagnostic, surgical and treatment services. Our referral hospitals, which serve as hubs for patients within a given region, had a 63.0% bed utilisation and generated 86% of our total healthcare services revenue in 2016. The EBITDA margin for our referral hospitals for 2016 was 30.9%.

20

Community hospitals provide **primary outpatient and inpatient** healthcare services.

Operating 465 beds

Community hospitals

We operate 20 community hospitals with a total of 465 beds as at 31 December 2016. Community hospitals are located in regional towns and municipalities and provide basic outpatient and inpatient diagnostic, surgical and treatment services to the local population. They also refer patients to referral hospitals for secondary or tertiary level treatment. Our community hospitals had a 22.9% bed utilisation, reflecting their role as primary healthcare providers and generated 9% of our total healthcare services revenue in 2016. The EBITDA margin for our community hospitals for 2016 was 29.9%.

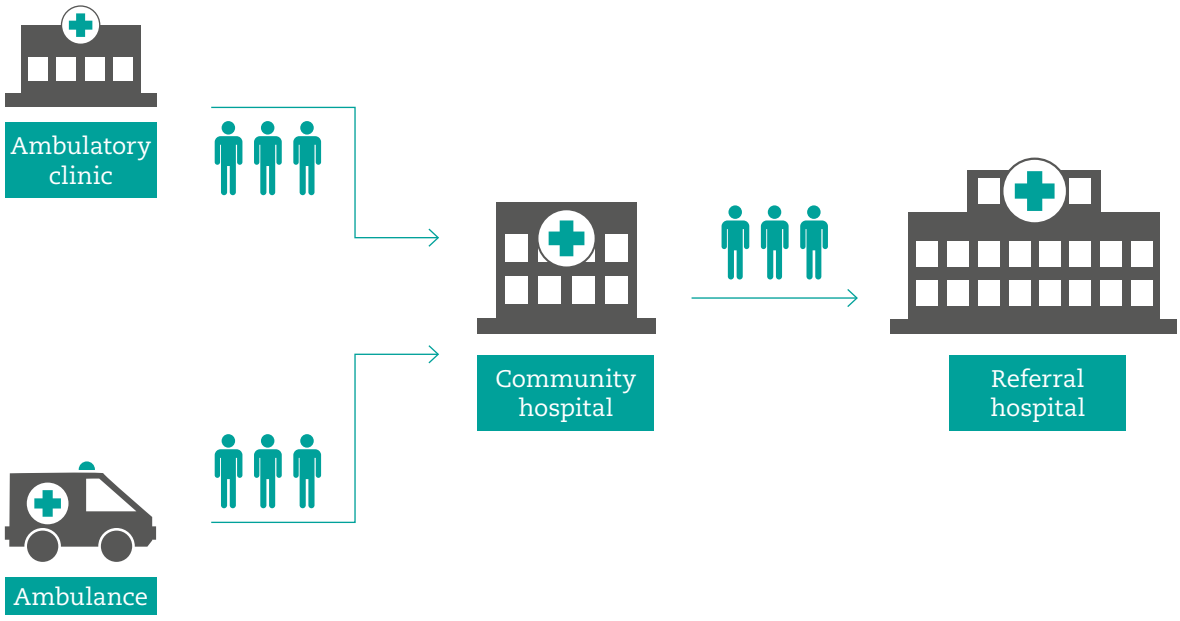
79

Ambulances facilitate the movement of patients to and between our hospitals

Ambulances

We operate 25 regular and 54 specialised ambulance vehicles (specialised ambulances are equipped with intensive care equipment and have medics on-board). Our ambulances play a feeder role for our hospitals, as they facilitate the movement of patients to and between our hospitals, improving utilisation of our facilities and medical personnel. We are investing in more specialist ambulances and staff to enhance our patient referral services.

Patient flow



Our business model continued

Healthcare services continued

10

Ambulatory clusters, consisting of 13 district and 28 express ambulatory clinics, providing **primary and secondary outpatient** healthcare services

Ambulatory clinics

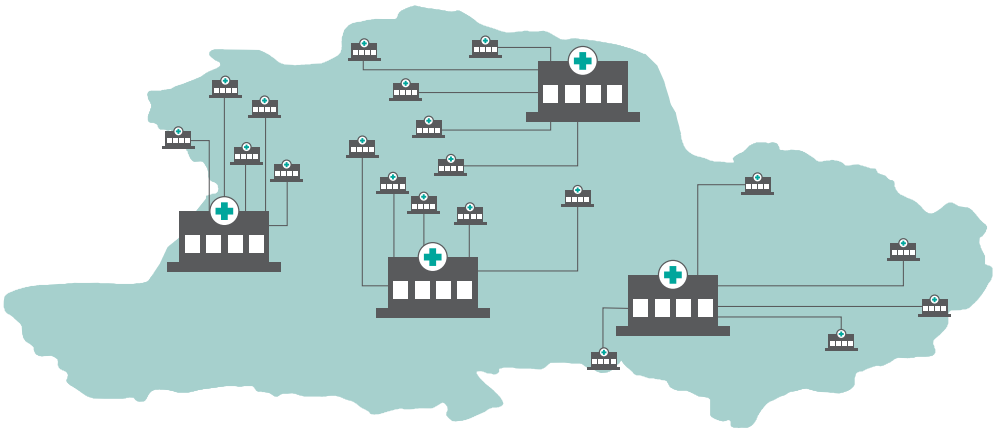
We operate ten ambulatory clusters consisting of 13 district ambulatory clinics and 28 express ambulatory clinics that provide basic and full scale outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities. Ambulatory clinics generate the highest margin and management currently believes that this segment of our business will become one of the largest source of future growth. Our ambulatory clinics business generated 5% of our total healthcare services revenue in 2016, up from 3% in 2015. Because of the new ambulatory clinics roll-outs the EBITDA margin stood at 15.1% in 2016.

Patient flow

ORGANISED IN CLUSTERS

Each cluster includes a district ambulatory clinic, located centrally in a particular district of the city, and three to five smaller express ambulatory clinics (mostly integrated with pharmacies), located in other areas of the same district.

Description of ambulatory clusters in Tbilisi



District ambulatory clinic

AREA: 1,800-2,500 sq/m
OFFERING: Full scale services
WORKING HOURS: 10:00-20:00, 6 days a week
INVESTMENT: GEL 2.0 million
REVENUE: GEL 3.5 million (annual run rate)

Express ambulatory clinic

AREA: 20-200 sq/m
OFFERING: Basic services
WORKING HOURS: 09:00-21:00, 7 days a week
INVESTMENT: GEL 300 thousand
REVENUE: GEL 0.1 million (annual run rate)

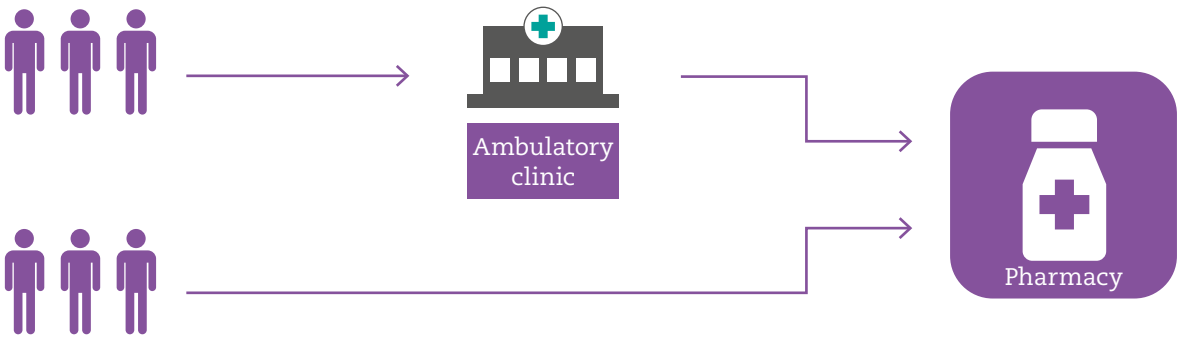
Pharmacies

243

Pharmacies, 27 of which are located in our healthcare facilities.

We operate the country's largest pharma retail and wholesale business consisting of 243 pharmacies as of January 2017. We are also the largest retailer in the country. We operate two pharmacy brands, each with distinct positioning: GPC (acquired May 2016) – for the higher-end customer segment and Pharmadepot (acquired January 2017) – for the mass retail segment. The pharmacies are located in Tbilisi and other major regional cities. Our pharma business has over two million monthly customer interactions and 0.5 million members of its loyalty programme. The EBITDA margin for our pharma business was 4.3% in 2016.

Patient flow



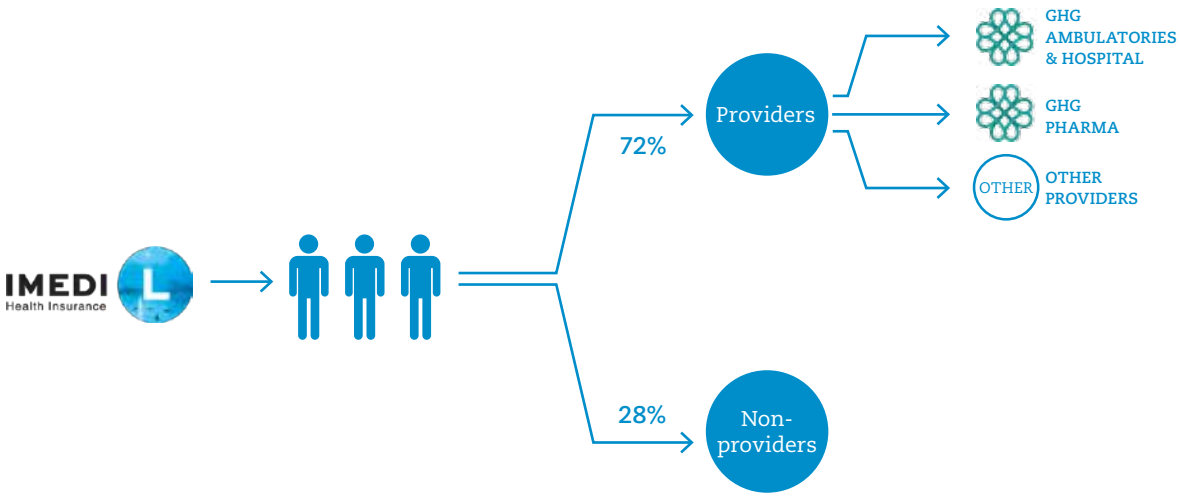
Medical insurance

61.5

Million GEL revenue generated by medical insurance business in 2016

We are the largest medical insurance provider in Georgia with a wide distribution network. We offer a variety of medical insurance products. We had approximately 211,000 customers as at 31 December 2016. We offer a wide 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 and have introduced products that "top up" or supplement the UHC coverage. Our products are offered as corporate packages to large employers and standalone policies for self-paying individuals. We have been adjusting the business model of our medical insurance business since 2013 when UHC transformed the landscape. While it suffered a loss in 2016, the business plays an important feeder role for healthcare services and pharma, and we believe that the business is turning the corner. Medical insurance generated GEL 61.5 million of revenue in 2016, comprising 14% of our total revenue and negative 2% of our total EBITDA. We operate 17 branches and service centres of our medical insurance business located in a number of cities and towns across Georgia.

Patient flow



GHG became the largest pharma player in Georgia

In 2016 GHG entered in to the pharma market and in January 2017 became the largest player, with 29% market share, of the GEL 1.3 million market. As a result, GHG is now present in the entire Georgian healthcare ecosystem with an aggregate market value of GEL 3.4 billion.

	GPC	ABC
Scale	**3rd** player **15%** market share **118** pharmacies **1 million** customer interactions per month **0.5 million** loyalty customers	**4th** player **14%** market share **125** pharmacies **1 million** customer interactions per month
Financials	**GEL 189.4 million** revenue 2015 **GEL 8.0 million** EBITDA 2015 **4.2%** EBITDA margin Revenue breakdown in 2015 **31%** para-pharmacy of total **75%** retail of total	**GEL 176.7 million** revenue 2015 **GEL 11.1 million** EBITDA 2015 **6.3%** EBITDA margin Revenue breakdown in 2015 **20%** para-pharmacy of total **67%** retail of total
Transaction overview	Merger multiple **EV of GEL 63.6 million** **x6.0** EV/EBITDA Purchase multiple **EV of GEL 43.5 million** **x5.7** EV/EBITDA Consideration US$12 million paid upon the signing of a definitive sale and purchase agreement, remaining 14.3% will be paid on the first anniversary of the closing (May 2017), subject to customary holdback provisions.	Merger multiple **EV of GEL 89.0 million** **x5.1** EV/EBITDA Consideration • US$12 million paid upon closing, US$5 million payable in one year, US$2 million each year for following four years – 33% of the cash proceeds to be used to purchase GHG shares on the market – Shares will be subject to a lock-up agreement • 33% of combined business • Minority buy-out: put/call options after six years, at 4.5x and 6.0x EV/EBITDA, respectively (put capped at US$85 million)

Combined

1st player
29% market share
243 pharmacies
2 million customer interactions per month
0.5 million loyalty customers

GEL 366.1 million revenue 2015
GEL 19.1 million EBITDA 2015
5.2% EBITDA margin

Revenue breakdown in 2015

26.1% para-pharmacy of total
70.7% retail of total

GHG merged ABC with its existing pharma business, GPC, and the name of the merged company is JSC Georgian Pharmacy ("GEPHA").

GHG owns a 67% equity stake in the combined pharma business. The remaining 33% minority stake is owned by ABC's existing two individual shareholders.

Notes:
1 Combined figures are pro-forma.
2 GHG has consolidated GPC financials since 1 May 2016.
3 GHG started consolidating ABC financials in 2017.

In May 2016, GHG acquired 100% of the issued share capital of JSC GPC, the third largest pharmaceutical retailer and wholesaler in Georgia with a 15% market share by 2015 revenue. GPC is an urban-retailer, operates with a countrywide distribution network of 118 pharmacies, of which 20 pharmacies are located at GHG's healthcare facilities. 25 of these pharmacies also have express ambulatory clinics. Para-pharmacies represented 33% of GPC retail revenues in 2016. No other pharmaceutical player on Georgian market has similar diversification of revenues.

In January 2017, GHG also acquired JSC ABC, the fourth largest pharmaceutical retailer and wholesaler in Georgia, with a marker share of 14% by 2015 revenues. As a result, GHG became the largest pharma player with c.29% market share by 2015 revenues. ABC focuses on a mass market pharmacy model, with a countrywide distribution network of 125 pharmacies across Georgia and operates under the brand name Pharmadepot. Seven of these pharmacies are located at GHG's healthcare facilities.

We have kept both brands, GPC and Pharmadepot, as they have a distinct positioning in two types of customer segments: GPC for the higher-end customer segment and Pharmadepot for the mass retail segment. GHG owns a 67% equity stake in the combined pharmaceutical business and the remaining 33% minority stake is owned by two ABC's existing main shareholders.

These transactions further underpin GHG's expansion strategy and its aim to be leading the integrated player in the Georgian healthcare ecosystem with an aggregate market value of GEL 3.4 billion. Following the acquisitions GHG became the largest purchaser of pharmaceutical products in Georgia, with a platform which offers significant synergy potential. Moreover, the combined pharma business is the largest retailer in the country, with over two million customer interactions per month through over 240 pharmacies. This provides GHG with a strong platform, with 29% share of the pharma market, to capitalise on the GEL 1.3 billion Georgian pharmaceuticals market, which represents 38% of total healthcare spending in the country. The combined pharma business does not require significant ongoing capex investments, and is therefore expected to generate strong free cash flow. We started consolidating ABC's financial results from January 2017.

GHG became the largest pharma player in Georgia continued

	GPC	ABC
Combining the two-strengths	• Strong customer loyalty in central regions of Tbilisi • Better revenue and margin in Parapharmacy • Average bill size is 9% higher than ABC • Sophisticated Customer Relationship Management ("CRM") and data-analytics software	• Disciplined management with good execution skills • Strong customer loyalty in Suburbs and regions • Better revenue and margin in wholesale business • Better overall revenue and margin • Better rental cost and agreement terms for pharmacies
Synergies	**Eliminating unnecessary costs** • At least GEL 1.9 million was expected within first three months of the acquisition • Exceeded expectations – GEL 3.3 million achieved **Cost synergies** • At least GEL 3.0 million was expected within a year of the acquisition • Already achieved – GEL 3.4 million GEL 6.7 million total annualised cost synergies achieved **Revenue synergies** • Expected c.GEL 9-10 million revenue upside from pharmaceutical sales – from which revenue of GEL 5.2 million already achieved on an annualised basis from pharmacies located at our healthcare facilities • Accelerates ambulatory launch strategy • GPC acquisition further enhances GHG's existing "patient capture" business model	**Eliminating unnecessary costs** • GEL 3.9 million expected over 2017 on an annualised basis **Cost synergies** • GEL 7.9 million are expected within a year of the acquisition on an annualised basis GEL 11.8 million total annualised cost synergies expected **Revenue synergies** • Redirecting customers from pharmacies to ambulatory clinics

Combined

- **We run the combined entity under two brands but the entity is managed by management of ABC**
- **Both brands have different strengths,** and the merger enables us to capitalise on the strengths of each and become the number one player in the pharma market with 29% market share

Eliminating unnecessary costs

- Combining the back-office operations
- Combining distribution and warehousing
- Eliminating other unnecessary operating costs

Cost synergies

- By consolidating GHG's pharma and hospital purchases of pharmaceuticals and medical disposables
  - Captive cost synergy – eliminating distributor margin
  - Manufacture cost synergy – additional volume discounts from manufacturers
  - Enhance hospital-bulk import

Revenue synergies

- **By redirecting patients from pharmacies to ambulatory clinics**
  - Over 2.0 million client interactions a month, with a strong loyal customer franchise which GHG plans to leverage to redirect the flow to ambulatory clinics
  - c.3 thousand GPC loyalty cardholders have already used products and services at GHG ambulatory clinics since the launch in September 2016
- 22 new GPC pharmacies opened after the acquisition, from which 16 located at our healthcare facilities

The pharma business acquisitions have a strong strategic fit with GHG's existing business model and are expected to be earnings accretive from day one.

Strong presence across the healthcare eco-system is our strategic goal. We hold 23% market share in hospital business and 35% market share in medical insurance business, after these acquisitions we became the largest pharmacy chain in the country with c.29% market share, which should help us to grow and realise revenue synergies in the more profitable ambulatory business, where we hold only 1.5% market share. These transactions enhance GHG's existing "patient capture" business model through its strong customer loyalty franchise implying over two million monthly customer interactions and 0.5 million members of the loyalty programme, which is expected to be enhanced by the clients of the combined pharma business. In addition, the pharma business is expected to drive additional referrals to GHG's ambulatory clinics.

The other positive factors include:

1) These transactions are earnings accretive from day one as we leverage on scale to extract cost synergies: GEL 11.8 million on an annualised basis at EBITDA level expected from ABC's and GPC's merger, within a year following the ABC's acquisition and GEL 6.7 million on an annualised basis achieved from GPC.
2) We will further diversify our revenues and the pharma retail business is expected to contribute c.30% of GHG's EBITDA next year.
3) With this acquisition, we will be bringing on board the best of GPC and ABC management teams in pharma retail business.

Browse our referral hospitals

Currently GHG operates with 15 referral hospitals, seven located in Tbilisi and eight in other regional cities. Referral hospitals provide comprehensive range of complex and specialist services, including secondary or tertiary level outpatient and inpatient diagnostic, surgical and treatment services. The seven Tbilisi hospitals have been acquired since 2013 when we started our strategy to target acquisitions in Tbilisi to increase our market share and bed capacity countrywide.

1. HTMC

High Technology Medical Centre University Clinic ("HTMC") is a major and well-established referral hospital in Tbilisi. It is also the single largest hospital in Georgia, providing a wide range of inpatient and outpatient services, including the largest department of oncology radiotherapy in Georgia. Its wide range of inpatient services include diagnostics and interventional radiology, radiation therapy, endovascular surgery, cardiac surgery, neuro surgery, dialysis, traumatology and orthopedic surgery. Together with comprehensive surgical treatment, it operates an emergency department, serving acute care patient flows. HTMC serves as one of the main referral hospitals for the Kakheti region, in East Georgia.

We acquired HTMC Hospital in August 2015.

2. Deka Referral Hospital

Deka Referral Hospital ("Deka") has a strong historic reputation and a prime location in North-East Tbilisi. We acquired Deka in June 2015 to continue our expansion into Tbilisi and to capitalise on the development of an under-utilised hospital. We started a substantial renovation of the unrefurbished Soviet-era hospital, in January 2016. The full renovation and launch of the hospital is expected to be completed in the second half of 2017. Following the completion of the renovation, the 320-bed Deka hospital will serve as a first level flagship hospital, being the first choice hospital for safe and quality elective medical care countrywide. The hospital will provide full-scale services for general and oncological surgery, oncology (including chemotherapy), vascular and cardiac surgery and orthopedic surgery. The hospital will also offer rehabilitation care and a variety of day care services.

In September 2016, we launched the first department at Deka, which is one of the largest outpatient and diagnostic centres in the country.

3. Sunstone Referral Hospital

Sunstone Referral Hospital ("Sunstone") was acquired in May 2014 to capitalise on the development of an under-utilised hospital. We started renovation of this Soviet-era amortised hospital, in January 2016. The first phase of renovation – 220 beds, is already completed and we launched the hospital in April 2017, two months ahead of the initial schedule. The full launch of the 332-bed Sunstone hospital is planned by the end of 2017, in line with the expected increasing demand. The hospital will serve as a third level referral hospital for the Eastern Tbilisi population and will become East Georgia's referral centre. Together with acute and elective paediatric and adult healthcare services, the hospital will serve as an excellence centre for hepatic and kidney transplantation countrywide.

4. Iashvili Paediatric Tertiary Referral Hospital

Iashvili Paediatric Tertiary Referral Hospital ("Iashvili"), located in Tbilisi, is the cornerstone of our neonatal and paediatric services, and offers one of the most comprehensive portfolio of such services in Georgia. Iashvili Paediatric Tertiary Referral Hospital has a strong reputation for neonatal and paediatric services in Georgia among both physicians and patients, as reflected in the volume of referrals from other healthcare facilities and the occupancy rates. It was partially renovated in 2011 and equipped with new medical equipment.

The hospital primarily caters to residents of Tbilisi, but also serves as a major referral hospital for specialised services and tertiary care for neonatology and paediatric services for patients throughout Georgia. It offers a full range of medical and surgical specialities to outpatients and inpatients, as well as 24-hour emergency services.

At Iashvili Paediatric Tertiary Referral Hospital we are focused on growth through the enhancement of existing, and the provision of additional, complex secondary and tertiary services, with a focus on neonatal and paediatric care. In 2015, we established a department for neonatal and paediatric cardiac surgical care, expanded the existing physical and labour capacity of the existing neonatal and paediatric neurosurgery department, invested in upgrades of existing equipment and recruited additional physicians.

We acquired Iashvili Paediatric Tertiary Referral Hospital in February 2014.

Browse our referral hospitals continued

5. Children's New Referral Hospital

Children's New Referral Hospital opened in 2011, in Tbilisi, as an extension of Iashvili Paediatric Tertiary Referral Hospital to capture the increased flow of neonatal and paediatric patients in Tbilisi. It currently serves as the main emergency centre for children and the hospital offers a full range of conservative and surgical services. Children's New Referral Hospital also offers inpatient and outpatient services for children with diabetes and rare genetic diseases.

We acquired Children's New Referral Hospital in February 2014.

6. Caraps Specialty Referral Hospital

Caraps Specialty Referral Hospital, located in Tbilsi, is a high-end specialty hospital, established by a private investor in 1998 and moved to its current location in 2012. The hospital focuses on plastic and reconstructive surgery, as well as oncology surgery, angiology, gynaecology, ophthalmology, orthopaedics and medical radiology. In 2016, we launched IVF at Caraps Medline. IVF is undeveloped in Georgia and patients generally have to travel abroad for this service. The immediate goal for GHG is to serve those patients that currently travel abroad for IVF service.

We acquired Caraps Specialty Referral Hospital in December 2013.

7. Tbilisi Traumatology Hospital

Tbilisi Traumatology Hospital, is mainly focused on adult acute care services. The hospital represents the third referral level for trauma patients countrywide and offers high technology, sophisticated services in trauma surgery, angio surgery, neuro surgery and critical care medicine. Tbilisi Traumatology Hospital also offers a wide range of orthopedic and reconstructive surgical services.

We acquired Traumatology Hospital in September 2014.

8. Kutaisi Regional Referral Hospital

Kutaisi Regional Referral Hospital, located in Kutaisi – the second largest city in Georgia – opened its doors in 2007. It is the cornerstone facility of our operations in west Georgia. While the hospital primarily caters to Kutaisi, it also serves as a major referral hospital for specialised services and tertiary care for all regions in west Georgia. It also serves as a referral centre for our community hospitals located in Terjola, Tkubuli, Tskaltubo and Khoni. It offers one of the most comprehensive portfolio of services in this part of the country, including the full range of outpatient and inpatient medical and surgical specialties as well as 24-hour emergency room services for any age group, and has a strong reputation (based on feedback from patients and physicians, including follow-up calls performed by our call centre) for intensive care, cardiology (interventional and cardio surgery), angiology, urology, gynaecology and diagnostics. It offers the widest range of secondary and tertiary neonatal and paediatric services in the region. In addition, it has departments for dialysis, mammography and histopathology as well as a blood bank. It was the first hospital to introduce a hypothermia service in west Georgia and the first to introduce computed tomography and magnetic resonance imaging for diagnostics, interventional cardiology services and cardio surgery in west Georgia. The Imereti referral laboratory that serves the rest of our Imereti healthcare facilities is also located here. The laboratory has obtained International Organisation for Standardisation ("ISO") 9001:2008 certification, accreditation awarded from the International Organisation for Standardisation in January 2014.

We constructed the hospital in 2011. We launched the West Georgia oncology centre at the same site in June 2015.

9. Kutaisi Emergency Referral Hospital

Kutaisi Emergency Referral Hospital is located in the centre of Kutaisi and has been operating since 2012. It is another cornerstone facility of our Imereti operations as it captures most of the region's emergency patient traffic. It also serves as a referral centre for our community hospitals located in Terjola, Tkubuli, Tskaltubo and Khoni. It offers the best emergency service in the region and has a strong reputation among patients. The state-owned ambulance service delivers most of the Imereti region's emergency patients to the hospital. Accordingly, services are focused on the emergency department, a surgery department with a general surgery line and several specialised surgery lines, an intensive care department, a conservative care department (for care designed to avoid radical medical therapeutic measures or operative procedures), including a stroke unit, ophthalmology, cardiology and complementary laboratory and medical radiology diagnostics services.

We built the Kutaisi Regional Referral Hospital to replace the large scale Soviet-era Imereti Regional Emergency Hospital, which ceased to operate after the new facility was launched in the spring of 2012.

Browse our referral hospitals continued

10. Saint Nicolas Surgery Centre

Saint Nicolas Surgery Centre provides a range of elective surgical services as well as outpatient services to the population in the Imereti region. Its mix of services include: oncology, neurology, traumatology, general surgery and gynaecology. It employs highly qualified medical personnel and is equipped with up-to-date medical equipment. Saint Nicolas Surgery Centre also provides aesthetic medical services to the Imereti population, including plastic and reconstructive surgery and will widen it range of elective surgeries to include laparoscopic surgery and less invasive surgical procedures.

We acquired Saint Nicolas Surgery Centre in 2008.

11. Batumi Regional Referral Hospital

Batumi Regional Referral Hospital opened its doors in February 2013 and is a multi-profile regional referral hospital, catering to the population of Adjara (a region near the Black Sea). It serves as a referral centre for our community hospitals located in Kobuleti, Qeda, Shuakhevi and Khulo. It also serves as a secondary referral point for patients from Guria, a region in west Georgia with a population of approximately 139,000 people.

The hospital employs the leading physicians in the region and has a strong reputation. It performed the first successful liver transplant in Georgia in December 2014, which further supported the reputation of this facility which we continue to build on by improving the quality of patient care by standardising processes and enhancing our service offering. The hospital has an emergency department, offers outpatient and inpatient primary and secondary care services and refers patients to clinics in Tbilisi.

We constructed Batumi Regional Referral Hospital in 2012.

12. The Batumi Paediatric Regional Referral Hospital

The Batumi Paediatric Regional Referral Hospital is the major provider of neonatal and paediatric services in the Adjara region. It also provides obstetrics and gynaecological services. Together with a maternity house, it offers acute care services and a full range of elective medical services to the neonatal and paediatric population. As part of the project led by John Snow International, the hospital was recognised for the successful implementation of an effective perinatal care programme. It serves as referral centre for our community hospitals located in Kobuleti, Qeda, Shuakhevi and Khulo.

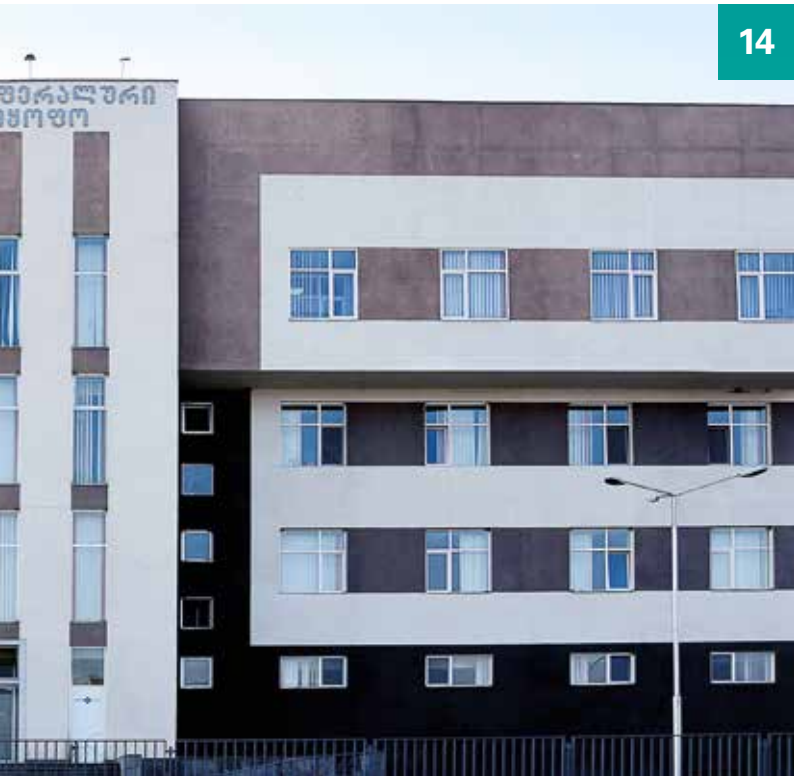
We acquired this facility in February 2014.

13. Zugdidi Regional Referral Hospital

Zugdidi Regional Referral Hospital is located in the main city of the Samegrelo region in West Georgia, bordering Abkhazia, and has been in operation since the Soviet era. It is the largest healthcare facility in Samegrelo, capturing the most regional patients. It serves as a referral centre for our community hospitals located in Abasha, Khobi, Martvili, Tsalenjikha, Chkorotsku and Poti. The hospital primarily covers the Samegrelo population and also serves patients from Abkhazia. It offers multi-profile primary and secondary services with a wide range of outpatient and inpatient medical and surgical specialties, as well as 24-hour emergency services, all up to and including the secondary level. It refers patients to the Kutaisi Regional Referral Hospital or one of our Tbilisi healthcare facilities for secondary or tertiary services.

Our growth strategy for the Zugdidi Regional Referral Hospital is based on capitalising on this facility's position as the single major secondary level hospital in Samegrelo.

We acquired the Zugdidi Regional Referral Hospital in 2011. Following the acquisition, we developed the hospital into a regional referral centre for the regional cluster of healthcare facilities.



14. Telavi Referral Hospital

Telavi Referral Hospital, offers multi-profile medical services to the local population, located in the eastern part of Georgia, in the Kakheti region. The hospital serves as a referral centre for Akhmeta and Kvareli community hospitals. Among other acute and elective surgical treatments, the local team offers complex operations in gastroenterology and traumatology. A neurointensive unit was recently opened offering advanced technology and quality services for patients with cerebrovascular disease.

We constructed Telavi Referral Hospital in 2012 as part of our strategy to expand in East Georgia.

15. Akhaltsikhe Referral Hospital

Akhaltsikhe Referral Hospital is located in Samtskhe (a region in South-East Georgia, bordering Armenia). Its renovation was completed in 2016, and it offers multi-profile medical services to the local population, located in the southern part of Georgia, in the Samtskhe region. The hospital serves as a referral centre for Ninotsminda, Adigeni and Akhalkalaki hospitals. The Akhaltiskhe medical centre was recently renovated and equipped with new medical equipment.

We acquired Akhaltsikhe Referral Hospital in 2012.

Browse our ambulatories

Ambulatory clinics revenue has grown at triple-digit rate over the last year, driven by our rapid launch of ambulatory clusters, in line with our strategy to enter this highly fragmented segment of the healthcare ecosystem in Georgia and become a large-scale ambulatory player in Georgia.

In 2016, we opened six ambulatory clusters, in line with our initial plan. These launches brought the number of ambulatory clusters to ten, consisting of 13 district ambulatory clinics and 28 express ambulatory clinics.

Our ambulatory clinics are brand new, modern and provide a diverse range of services in one location, unlike the majority of the competition, and therefore are an attractive proposition for the insured customers.

1. District ambulatory clinic located in Didi Digomi neighbourhood

Launched: in December 2016
Population coverage: c.140,000
Services: caters to all age groups and provides a wide range of outpatient services, including imaging and functional diagnostics.
Pictured: Ambulatory clinic interior.

2. District ambulatory clinic located in the West, in the largest city of Samegrelo region, Zugdidi

Launched: in October 2016
Population coverage: c.100,000
Services: caters to all age groups and provides a wide range of outpatient services, including imaging diagnostics; clinical, biochemical and serological laboratory tests.
Pictured: Ambulatory clinics exterior in region.

3. District ambulatory clinic located in Isani neighbourhood

Launched: in August 2016
Population coverage: c.300,000
Services: caters to all age groups and provides a wide range of outpatient services, including biochemical test.
Pictured: Ambulatory clinic exterior in Tbilisi.

4. District ambulatory clinic located in West Georgia, in the largest city of Adjara region, Batumi

Launched: in December 2016
Population coverage: c.150,000
Services: caters to all age groups and provides a wide range of outpatient services, including specialist physician consultations.
Pictured: Specialist physician consultations at our ambulatory clinic.

3

4

5

5. District ambulatory clinic located in Didube neighbourhood

Launched: in August 2016
Population coverage: c.140,000
Services: caters to all age groups and provides a wide range of outpatient services, including imaging and functional diagnostics.
Pictured: Registration desks at our ambulatory clinic.

6. District ambulatory clinic located in Mtatsminda neighbourhood

Launched: in May 2016
Population coverage: c.105,000
Services: caters to all age groups and provides a wide range of outpatient services, including general practitioner and specialist physician consultations.
Pictured: Ambulatory clinic interior.

6

Browse our pharmacies

The pharma acquisition transactions further underpinned GHG's expansion strategy and its aim to be the leading integrated player in the Georgian healthcare ecosystem with an aggregate market value of GEL 3.4 billion.

The acquisition of the pharmaceutical businesses provided GHG with a strong platform of 29% share of the GEL 1.3 billion pharma market, which represents 38% of total healthcare spending of the country. GHG's pharma business became the largest retailer in the country with over two million customer interactions per month through over 240 pharmacies. GHG also strengthened its position as the largest purchaser of pharmaceutical products, as well as the largest retailer in Georgia.

1. GPC – operating since 1995. Established as urban retailer with solid footprints.

2. GPC – para-pharmacies represented 33% of retail revenues in 2016. No other pharmaceutical player on Georgian market has similar diversification of revenues.

3. GPC – has approximately one million retail customer interactions per month, with c.0.5 million loyalty card members.

4. Pharmadepot – ABC has been operating since 2001. Established mass market retailer with solid footprint. Operates under the brand name Pharmadepot.

5. ABC – initially engaged in oncology and other niche medicine distribution and in 2011 established first retail outlet.

6. Pharmadepot – has approximately 1.1 million retail customer interactions per month.

7. GPC – the number of pharmacies at our healthcare facilities reached 20 up from four pharmacies during the acquisition.

8. Pharmadepot – the number of pharmacies at our healthcare facilities is currently seven.

Performance against strategy 2016

Strategic goal	2016 performance
Healthcare services	
Doubling 2015 revenue in by 2018	• Revenue increased to GEL 246.1 million in 2016, up 26.2% y-o-y from GEL 195.0 million in 2015 • Organic revenue growth rate was 16.3% y-o-y • Doubling revenue in three years translates in to CAGR of 26% revenue, which was achieved in 2016 • **Renovations are proceeding for Deka & Sunstone hospitals (additional c.600 beds)** – We completed renovation of the first phase of Sunstone two months ahead of the initial schedule. With 220 newly renovated beds, the hospital was launched in April 2017. The full launch of the 332-bed Sunstone hospital is planned by the end of 2017 – Renovation of Deka (c.320 beds) is in two stages. In August 2016 we opened Deka's diagnostic centre – one of the largest in Tbilisi – on schedule and on budget. The second stage of Deka's development into a flagship multi-profile hospital is on budget but slightly behind schedule due to permit delays that are now resolved • We launched 64 new services in 14 different referral hospitals including some basic services (such as paediatrics, neonatology, diagnostics, ophthalmology, mammography and breast surgery, gyneacology, cardio-surgery, traumatology, angio-surgery, intensive care, reproductive services, etc.) as well as sophisticated ones (such as transplantation of bone marrow, paediatric kidney transplant, etc.). The annualised revenue from these recently launched services, based on recent monthly run rates, is over GEL 18 million. – We launched an IVF service at Caraps Medline – an upscale boutique hospital in Tbilisi, particularly renowned for gyneacology and plastic surgery services in Georgia. 193 patients have received treatment since the launch of the service. The annualised revenue from IVF service, based on recent monthly run rates, is GEL 1.3 million • In 2016, we opened additional six ambulatory clusters in line with our initial plan, bringing total number of ambulatory clusters to ten • In 2016, ambulatory clinics contributed 5% to total revenue from healthcare services, compared to 3% in previous year
EBITDA margin 30%	• **Achieved our target of c.30% EBITDA margin ahead of time, delivering 30.2% healthcare services EBITDA margin in 2016** • Gross profit 34.4% y-o-y increase to GEL 113.1 million in 2016 • Operating leverage positive at 17.5 percentage points y-o-y
Pharma	
Expanding into pharma business	• Acquired third largest pharma player – GPC, in May 2016, operating with 118 pharmacies countrywide • Acquired fourth largest pharma player – ABC, adding 125 pharmacies countrywide from January 2017 • 22 new GPC pharmacies opened since the acquisition, in 2016 • The number of GPC pharmacies located at our hospitals has reached to 20 up from four, since the acquisition, in 2016
Extracting cost synergies	• Since the acquisition, of GPC in May 2016, we have realised GEL 6.7 million annualised cost synergies, versus GEL 4.9 million initial guidance – We have eliminated GEL 3.3 million unnecessary cost compared to initial guidance of GEL 1.9 million on an annualised basis – As a result of the consolidated purchasing of our healthcare services and pharma businesses, through the 1st quarter of 2017 we delivered GEL 3.4 million cost savings from manufacturer discounts, versus GEL 3.0 million initial guidance
Realising revenue synergies with ambulatory	• Since the 4Q 2016 c.3,000 of our pharma business loyalty cardholders that had not used our ambulatory services before were redirected from our pharmacies to our ambulatory clinics • 25 express clinics of our pharma business were rebranded into GHG ambulatory clinics
Medical insurance	
Maintaining market share	• Maintaining leading market position with 35.3% market share by revenue as of 31 December 2016 • Net insurance premiums earned up 5.0% y-o-y to GEL 61.5 million in 2016 – Medical insurance products sold to retail clients up 31.4% y-o-y in 2016 – Medical insurance products sold to corporate clients up 1.6% y-o-y in 2016 • Number of insured individuals remained above 200,000 during 2016
Stabilising earnings	• Medical insurance suffered another small loss in 2016, largely due to one contract with a large state ministry which has now been cancelled

Our strategy going forward

GHG has full presence in the Georgian healthcare ecosystem and our long-term growth strategy is focused on increasing our profitability while achieving a one-third market share by both number of beds and revenue in hospital business, achieving 15% market share in ambulatory business, retaining at least one-third market share in our medical insurance and gaining a one-third market share in our pharma businesses. We believe that the implementation of the UHC in Georgia (which provides basic healthcare coverage to the entire population), the highly-fragmented nature of the healthcare services market (whereby the top six providers control only approximately 40% of the market by number of beds, as of 31 December 2016) and existing service gaps in both the hospital and ambulatory segments have created significant potential for expansion and market share gains for us, through organic growth and acquisitions. GHG's strategy from 2015 through 2018 is simple: at least doubling 2015 healthcare services revenue by 2018, increasing pharma EBITDA margin and improving medical insurance profitability by driving loss and combined ratio down and retaining more claims within the Group.

Segment	Hospitals	Ambulatory	Pharma	Insurance
Market (2015)	GEL 1.2bln	GEL 0.9bln	GEL 1.3bln	GEL 0.17bln
Market shares	By revenue/beds	By revenue	By revenue	By revenue
In 2015	18% | 27%	<1%	–	38%
In 2016	20%[1] | 23%	1.5%[1]	29%[2]	35%
Medium-term, 2018	25% | 28%	5%	30%+	30%+
Long-term	30%+	15%+	30%+	30%+
Medium-term P&L targets	Doubling 2015 revenue by 2018 With 30% EBITDA margin		8.0%+ EBITDA margin	<97% Combined ratio >50% Claims retained within GHG
Key focus areas in medium-term	1. Enhancing footprint in Tbilisi 2. Filling service gaps 3. Strengthening existing services in elective care	1. Accelerated footprint growth 2. Aggressive revenue growth through various channels (pharma, insurance, corporates, state programmes)	1. Enhancing retail margin (private label & contract manufacturing) 2. Growing loyalty customers 3. Growing wholesale revenue 4. Cross-selling to ambulatory clinics	1. Portfolio re-pricing and cost-efficiencies 2. Redirecting more patients to GHG ambulatory clinics & pharmacies

1 For hospitals and ambulatory clinics 2016 revenue market shares represents management estimates.
2 Market share of pharma business is including ABC and is based on 2015 year's revenue figures, for competitors it represents management estimates.

Our strategy continued

Healthcare services – doubling 2015 revenue by 2018 (Hospitals)

Objectives	2016	2018
1 Expanding footprint mainly in the capital	Market share 17%	Market share 26%
2 Grow urgent treatments	Market share 32%	Market share 39%
3 Grow elective surgery and increase participation in vertical programmes	Market share 15% Elective 17% Vertical	Market share 28% Elective 28% Vertical
4 Filling service gaps	Number of services 64 services implemented	Number of services 120+ services to be implemented
5 Impact of new regulations	20 "quasi" ICU clinics appeared on market in capital	for ICU services government might contract only referral hospitals

How we are going to achieve these objectives:

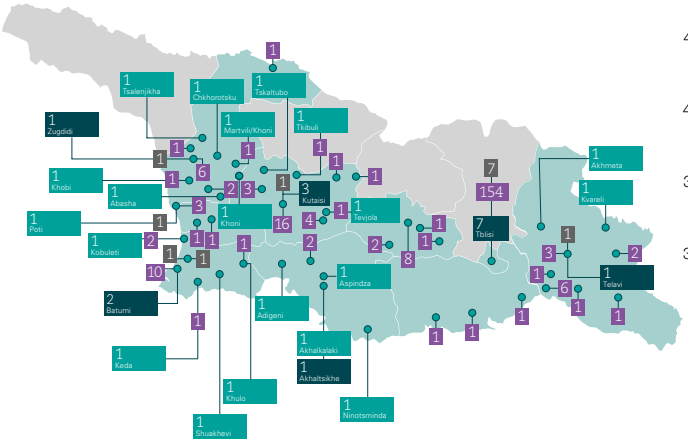
1 Increasing footprint in capital with 320-bed and 332-bed first class Deka and Sunstone hospital

	Before	After
Deka		
Sunstone		

2 Dominant positions in delivering urgent service

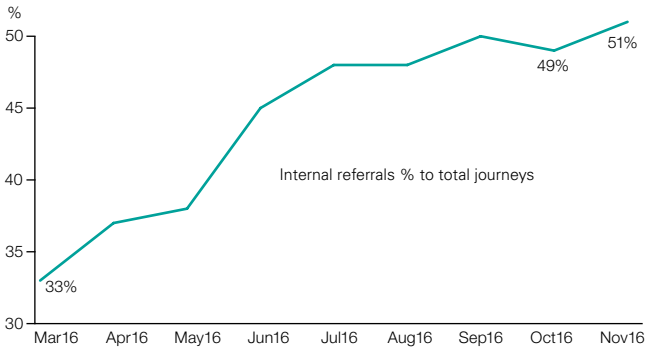
Dominant position in emergency care regions

- Well developed urgent services
- Expanding footprint up to 26% market share by beds in the capital in 2017, current only 17%
- Still room for growth in East Georgia up to third of market share



Managing largest emergency fleet

- 79 emergency ambulances are managed by healthcare services
- 55% of countries emergency fleet capacity
- Added 30 ambulances from June 2016



3 Focus on elective care and Government vertical programmes where GHG has only 15% market share

- GHG's position is strong as it has 26% market share out of more than GEL 70 million market, in the following elective care treatments: general surgery; trauma/orthopedics; radiation therapy; urology.
- Focus on those elective care treatments, more than GEL 120 million market, where GHG has only 8% share, such as: oncosurgery; chemo & hormone therapy; ophthalmology; angiosurgery; neurosurgery; gyneacology.
- Focus on vertical programmes, more than GEL 70 million market, where GHG has only 17% share, such as: individual support fund; dialysis & kidney transplantology; mental health; infections care; mothers & children etc.

4 Implementing more than 60 services in short-term pipeline

64 new services launched in 14 different hospitals

• Investment	**Over GEL 21 million**
• Run rate annual revenue	**Over GEL 18 million**
• Actual weighted AROI	**c.24%**

60 new services are scheduled to be implemented in 13 different hospitals

• Investment	**Over GEL 9 million**
• Run rate annual revenue	**Over GEL 20 million**
• Targeted AROI	**c.30%**

5 Government is considering the cancellation of contracts with "quasi" Intensive Care Unit ("ICU") clinics

Background:

- No strict regulations of clinical types before 2016
- More than 20 hospitals with more than 200 ICU beds opened in Tbilisi during last two years
- These hospitals have no diagnostics and surgery service capabilities
- High risks in managing urgent services

Initiative:

- According to new regulation hospital types are defined
- Allowed to operate ICU beds when running full supporting services
- Government may cancel contracts with these hospitals in 2017
- Up to 20 Hospitals with more than 200 ICU beds could be closed in Tbilisi in 2017

Healthcare services – doubling 2015 revenue by 2018 (Ambulatories)

Objectives	2016	2018
	Clusters	
1 Accelerated launch	10	c.25
	Share in outpatient revenue	
2 Sales to corporates	N/A	1/5
	Share of revenue from our medical insurance and co-payments	
3 Increased revenue/ decreasing dependency	48%	20%
	Unique patients per month	
4 Pharma cross-sell	c.1,000	c.22,000
	Share in eligible state programmes	
5 State programmes	1.5%	20%
Share in GHG healthcare business revenue	4.8%	15%

How we are going to achieve these objectives:

1 c.12 additional outpatient clusters by the end of 2018, bringing total number of clusters to 22

- We aim to open six clusters in 2017 and six clusters in 2018
- Expansion both in Tbilisi and in regions
- GPC acquisition in May 2016 gave us additional 25 express clinics saving on capex and expediting the roll out process, however, we will still opportunistically expand express clinics to strengthen the cluster model if opportunities arise

2 Aiming c.1/5 of ambulatory revenue to be generated from corporate sales by 2018

c.685k
officially employed in Georgia[1]

c.685k
people (c.250k families) enjoy various healthcare plans[2]

Primarily targeting the segment that is either insured by a competitor or without access to private medical insurance plans:

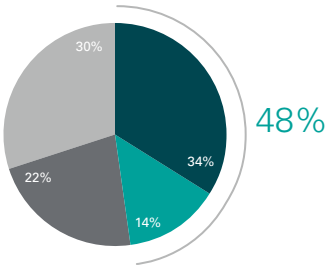
- Workforce insured by other than GHG insurance
- Lower income workforce without insurance plans
- Population aged 65+
- Extended family members of those with insurance plans

Source:
1 Ministry of Economy.
2 Insurance.gov.ge.

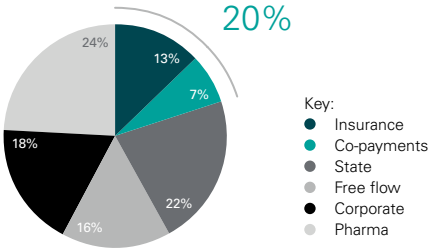
3 GHG ambulatory clinics are preferred providers for our medical insurance, respectively share of revenue from insurance is high. Along with increasing the revenue from other sources, dependency on medical insurance is expected to decrease significantly

Revenue breakdown by sources

2016



Target going forward



4 We aim at feeding c.22,000 unique patients per month from the combined pharma to ambulatories

Manual CRM monthly analysing c.1 million pharma transactions every month. Customers with identifiable health conditions offered complementary visits to suitable doctors and special offers on lab and diagnostics.

GHG pharma loyalty card

Patient flow

GHG ambulatory clinic

5 Enter into eligible state funded primary healthcare programmes and gain c.20% share by 2018

000' GEL

Programme	State Budget	GHG Share
Hepatitis C	19,500	–
Antenatal	2,700	345
Tuberculosis	2,613	101
Onco screening	1,866	–
Diabetes	1,594	–
HIV Testing	710	–
Vaccination	40	–
Total	**29,023**	**446**

Our strategy continued

Pharma business – we are targeting improving our EBITDA margin to 8%+ by 2018

Objectives	2016	2018
	Share of "GPC" products	
1 Enhancing retail margin	<3%	15%+
	Revenue	
2 Growing wholesale revenue	GEL 36.9m	20-25% growth in sales to drugstores double hospital sales
	Loyalty cardholders	
3 Increasing customer loyalty	c.500k	c.1 million
	Pharmacies	
4 Expanding retail footprint	243[1]	300+

1 Including ABC's pharmacies.

EBITDA margin	4.3% GPC	8.4% ABC	8.0%+
Market share	29%		30%+

How we are going to achieve these objectives:

1 GEL 1 million substitution of general sales by GPC product sales is expected to improve the gross profit margin in retail by 0.20%

Aim to grow share of GPC products in pharma revenue from c.3% currently to over 15%

- **Generics** – more than 70 products in the pipeline; to be introduced in 2017
- **Private Label** – talking to three potential partners in Italy and France. First line to be introduced by YE2017
- **Contract manufacturing** – new products are under negotiation; to be introduced in 2017

2 Growing wholesale revenue in hospitals and drugstores by signing new corporate accounts as well as growing through increased hospital purchases for our healthcare services business

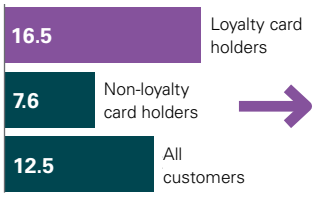
Source of revenue	Current (2016)	2018 target
Drugstores	GEL 34.8 million	20-25% revenue growth in two years
Hospitals	GEL 7.7 million	Double current sales

3 Increasing loyalty significantly boosts average bill and overall revenue

Client interactions (GPC)

1 million client interactions per month

Bill size



(Average bill size in GEL)

Loyalty card members

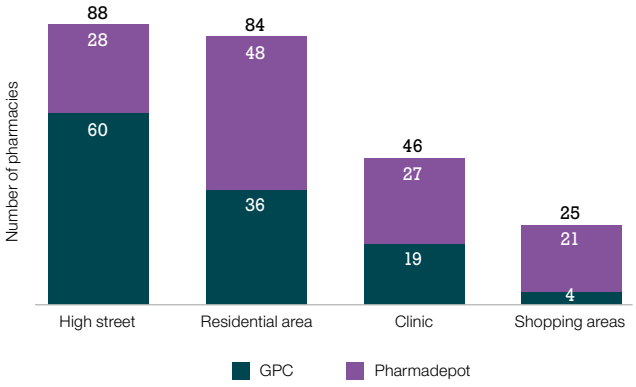
500k loyalty card holders

Priorities

- increase loyalty customers to one million
- increasing utilisation rate of loyalty card
- enhancing the mobile app

4 GPC and ABC retail footprints complement each other – while GPC is a well established retailer with significant presence on high street, ABC is better represented in residential areas

Total of 243 pharmacies now



243 total number of pharmacies now

300 expected number of pharmacies in 2018

Medical insurance – focus on increasing synergies within the group by 2018

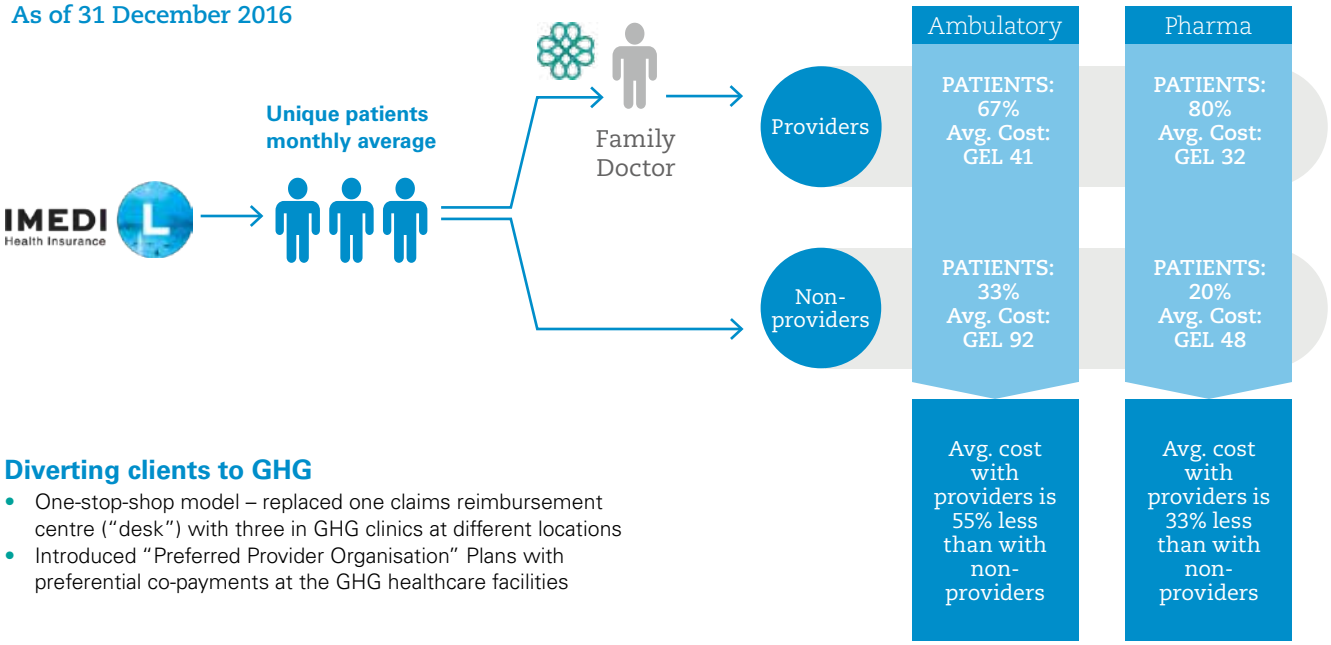
Objectives	2016	2018
	Total claims retained within the Group	
1 Group synergies	23%	>50%
	Loss ratio	
2 Portfolio repricing	81%[1]	<75%
	Expense ratio	
3 Cost efficiency	15%[2]	<14%

1 Excluding Ministry of Defence ("MOD") contract.
2 Excluding MOD contract and commissions.

How we are going to achieve these objectives:

1 Synergy growth opportunities

As of 31 December 2016



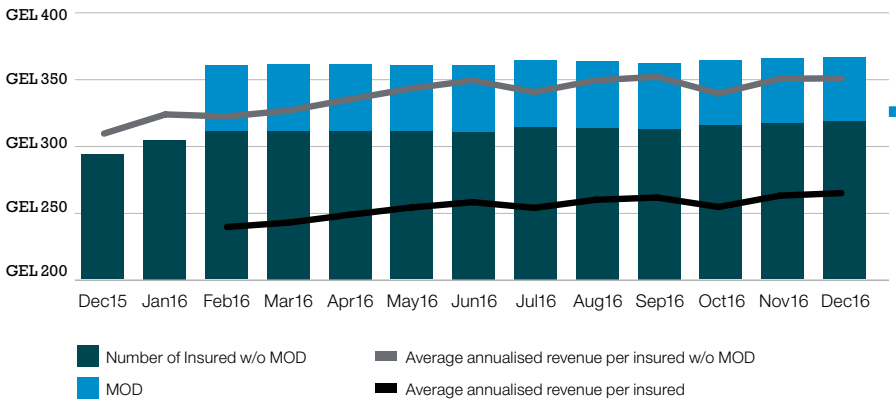
*Average cost: Excluding MOD.

Diverting clients to GHG

- One-stop-shop model – replaced one claims reimbursement centre ("desk") with three in GHG clinics at different locations
- Introduced "Preferred Provider Organisation" Plans with preferential co-payments at the GHG healthcare facilities

2 Re-pricing effect kicking in favourably

Portfolio dynamics



2018 goal
<75%
Loss ratio

3 Optimising operating expenses – kGEL 850 annual savings

kGEL 300
Annual savings in salaries due to structure optimisation

kGEL 400
Annual savings in rent expense due to new HQ and "desk" relocation

kGEL 150
Annual savings in administrative expenses due to re-negotiation of terms and conditions with different service providers

2018 goal
<14%
Expense ratio

Clinical strategy – to grow a new generation of doctors and nurses while building robust clinical quality management processes

Our main challenges

Lack of doctors and nurses: quality and new generation

Doctors

- High number of doctors with Soviet education
- Average age c.50
- Shortage in number of specialties

Nurses

- The WHO recommends a nurse to doctor ratio of 4:1 for Georgia
- Current ratio of 0.9

What we are doing

GHG Residency Programmes

- Evidence-based medicine and western standards of care is our baseline
- Launched residency programmes in 20 specialties
- With total residency quotas of 234
- 58 residents enrolled currently
- 110 vacant positions announced in December for which a total of 413 applications are received
- It takes on average 33 months to complete the residency programme

GHG Doctor Training Programmes 2016

- 2,035 doctor trainees in seven specialties (obstetrics and gyneacology ("OBGYN"), paediatrics, internal medicine, laboratory, neonatology, infection control and prevention, critical care) and 15 programmes
- 2,299 nurse trainees retrained (anatomy, physiology, medical calculation, procedures, operations)

GHG Trainers of Trainers Programmes ("ToT")

In 2016, 101 of our employees completed Trainers of Trainers programmes in these specialties:

- Nursing General
- Nursing Operational
- Basics of Paediatric Critical Care
- General Critical Care Basics

GHG Continuous Medical Education

2015-2016 – we focused on building continuous medical education platform in eight specialties:

- OBGYN
- Paediatrics
- Neonatology
- Internal Medicine
- Lab
- Nurses
- Infection Control
- Critical Care

- 14 CME programmes conducted
- 1,062 doctor trainees and 3,042 nurse trainees engaged

110 vacant positions announced in December

2,035 doctor trainees in seven specialties

101 employees completed Trainers of Trainers programmes

14 CME programmes conducted

✓ **Sourcing and expertise advancement of our physicians and nurses through education and practical development**

Our medium-term goals include knowledge and expertise advancement of our physicians and nurses through education and practical development, as well as developing and implementing quality management measures at a larger scale within our healthcare facilities.

Our main challenges

Low quality of basic medical care

- Quality management since the Soviet era still in the early state of development
- No official/comprehensive framework of protocols or treatment guideline available on national level

What we are doing

GHG Clinical Quality Protocols

- Internal process of development and implementation of protocols lunched
- Evidence-based medicine and western standards of care as a baseline for:
  - Clinical protocols
  - Nursing protocols
  - Hospital performance standard operating procedure ("SOPs")
  - Quality and safety policies
- 129 protocols are approved
- 40 are in progress
- 130 are planned

GHG clinical quality framework development 2015-2018

Goals:
- Risk management
- Safety
- Infectious control
- Quality improvement

Strategy:
- Building quality database
- Training professionals in the area of clinical quality

GHG Clinical Quality Trainings

- 2015-2016 – Implementation of Clinical quality management framework
- 22 trainings in quality management topics around infectious control, database management and Quality and Safety Indicators ("QSIs") completed
- Two trainings ongoing
- 43 training courses planned through 2018

GHG Clinical Quality Monitoring

- 2016 – Clinical QSIs monitoring implemented in ten hospitals
- Ongoing in six hospitals (expected to be completed – 2017)

129 protocols are approved

Training professionals in the area of clinical quality

43 training courses planned through 2018

16 Clinical QSI monitoring in 16 hospitals

✓ **Developing and implementing quality management measures at a larger scale within our healthcare facilities**

We fill healthcare service gaps in Georgia

We launched oncology centre

Issue

- Suboptimal due to outdated technology
- Soviet-era staff with poor access to new western standards of care
- Significant outflow of patients abroad

We achieved

- Launched service in July 2015
- In 2015 serviced over 165 patients
- 2016 – so far 700 patients treated
- Target – 2,000 per year
- Staff reinforced with Georgian repatriate physician team practicing in Europe for two decades
- Standard of care is approaching European guidelines

Our plans

- Second linear accelerator in Kutaisi
- Expansion of existing unit (it has capacity to double the flow)
- Hematology unit up and running for bone marrow transplant
- Development of Paediatric Hemato-Oncology

✓ Strengthen existing services and launch new ones

We launched liver transplantation

Issue

Only two centres in Georgia with successful cases

We achieved

- Launched service in December 2014
- Assisted by multi-national cardio surgical teams (Italy and India) providing practical training to local team
- Completed nine successful operations
- Excellent performance record – 0 lethality

Our plans

- Expanding the department, targeting 20 operations per year
- Consolidate transplant programme (liver, kidney – paediatric and adult) in Tbilisi
- Start transplant residency
- Have local team perform operations independently in 2017

✓ Strengthen existing services and launch new ones

First liver transplant patients, a donor and a recipient, operated at GHG Batumi Referral Hospital in December 2014.

Liver transplant patients, a donor and a recipient, operated at GHG Batumi Referral Hospital in May 2015.

Long-term high-growth story

We believe that we can more than double our 2015 healthcare services revenue by 2018, while maintaining an EBITDA margin of approximately 30%. To achieve this, we aim to:

Scale up and institutionalise the healthcare services business

Milestone

At least double 2015 revenue by 2018

Through utilising acquired hospital capacities and aggressively launching ambulatory clinics

Enabler

- **Utilise existing hospital capabilities**
  - no need for new hospital acquisitions for targeted growth
  - only c.56% bed utilisation[1] in 2016, c.600 beds in development
- **First mover advantage in fragmented outpatient market**
  - enhancing presence across patient pathway

Enhance revenues by capitalising on scale

Milestone

Georgia medium-term = Turkey 2014

(target set out during IPO 2015)

By healthcare spent per capita

Through enhanced service mix, improved quality of care

Enabler

- Gaining 1/3 market share by revenue in hospitals
- Gaining 15%+ market share by revenue in outpatient

Significant levers for further growth

Milestone

Catch up with developed EM benchmarks in long-term

2015-2018 → Medium-term target (5-10 year horizon) → Long-term target (Beyond 10-year horizon)

	Georgia Year 2013-2014[1]	Georgia medium-term[1]	Emerging markets ("EM") Year 2013-2014[2]
Spending per capita (US$)	217 (Georgia)	502	1,076
Price inflation (heart surgery, US$)	6,500 (GHG)	9,000	25,000
GHG revenue per bed (US$)	34,000 (GHG)	99,000	280,000
Outpatient encounters	4.0 (Georgia)	5.4	8.9

Significant expansion of capacity by 2025

Substantial room to grow beyond 2025

Sources:

1 Bed utilisation for referral hospitals; World Bank; GHG internal reporting; Management Estimates; Ministry of Finance of Georgia; Frost & Sullivan 2015, NCDC healthcare statistical yearbook 2014.

2 WHO: Average of countries: Chile, Costa Rica, Czech Republic, Estonia, Croatia, Hungary, Lithuania, Latvia, Poland, Russian Federation, Slovak Republic; BAML Global Hospital Benchmark, August 2014.

Key performance indicators

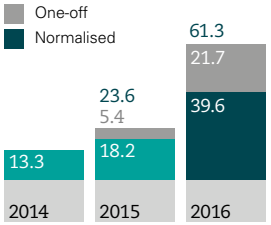
Our KPIs for 2016 reflect a strong performance our healthcare services and medical insurance businesses and demonstrate excellent organic growth with improving margins; our medical insurance business is in turnaround mode.

Returns KPIs

Diversified revenue sources across healthcare facilities and medical insurance, a growing number of healthcare facilities and an enhanced service mix as well as entering the pharma market, were the main drivers of the exceptional results in terms of profitability in 2016.

The improving EBITDA margin is a function of our scale and focus on efficiencies and reflects in particular the substantial growth in Tbilisi during 2016, reflecting higher utilisation levels in our healthcare facilities in the capital. The contribution of acquired healthcare facilities in 2015, strong margins, improving cost efficiency and consolidating pharma results since May 2016 translated into a 117.8% normalised[1] (excluding one-off items) growth in profit.

Profit (GEL million)[1]

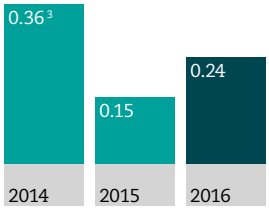


61.3

+117.8% y-o-y (normalised)[1]

Profit is calculated in accordance with IFRS and represents revenue less cost of goods sold and operating expenses, net non-recurring expenses and tax expense.

Earnings per share (GEL) (Normalised)[2]

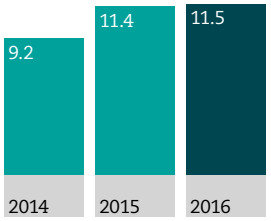


0.24

+60.0% y-o-y

Profit attributable to shareholders divided by weighted average number of outstanding shares.

Return on average equity (%) (Normalised)[4]

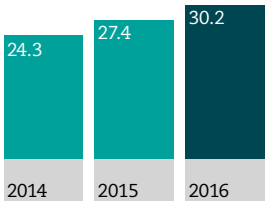


11.5%

+0.1 ppts y-o-y

Profit attributable to shareholders divided by monthly average total equity attributable to shareholders. Total equity attributable to shareholders is made up of share capital, additional paid-in capital, treasury shares, retained earnings and other reserves.

Healthcare services EBITDA margin (%)



30.2%

+2.8 ppts y-o-y

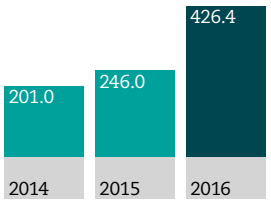
EBITDA margin is calculated as EBITDA divided by revenue, gross of corrections & rebates.

Growth KPIs

The record revenue of GEL 426.4 million for full year 2016 was primarily driven by pharma business consolidation GPC since its acquisition in May 2016 and the 26.2% growth in our healthcare services revenue, of which 16.3% was organic.

In 2017 and beyond, we will continue to focus on profitable revenue growth, which we expect will driven by a combination of organic growth and the integration of recently acquired hospitals, mainly focusing on Tbilisi and increase our market share in the fast-growing, highly fragmented and under penetrated outpatient market; investing in medical equipment, utilising existing service gaps, particularly in oncology, high-tech diagnostics, laboratory and specialist services; continuing to lead the market in the quality of our medical care; driving margin improvements through operational efficiency and utilisation levels in our facilities; consolidating combined pharma business (GPC – since May 2016, ABC – since 1Q 2017); and maintaining our existing market share in medical insurance.

Revenue[5] (GEL million)

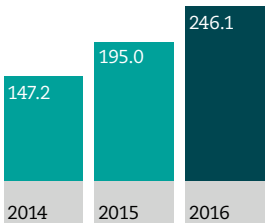


426.4

+73.4% y-o-y

Revenue comprises healthcare services revenue from both inpatient and outpatient services; pharma business revenue and net insurance premiums earned from medical insurance.

Healthcare services revenue (GEL million)



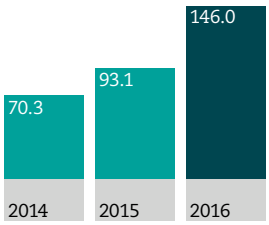
246.1

+26.2% y-o-y

Revenue comprises healthcare services revenue from both inpatient and outpatient services.

1 Normalised profit is the profit adjusted for one-off items. In 2016 one-off items include non-recurring gain due to deferred tax adjustments and one-off currency translation loss.
2 Normalised earnings per share ("Normalised EPS") is calculated as normalised profit (profit for the period attributable to shareholders"adjusted for one-off items as explained in "footnote 1"), divided by the weighted average number of shares outstanding during the same period.
3 Relatively large EPS in 2014 was caused by much smaller number of shares outstanding in 2014 year. Number of shares outstanding increased by 352.4%, from 28,334,829 in 2014 to 128,181,820 after IPO in 2015.
4 Normalised return on average total equity ("Normalised ROAE") is calculated as normalised profit (profit for the period attributable to shareholders adjusted for one-off items as explained in "footnote 1"), divided by average equity attributable to shareholders for the same period net of unutilised portion of IPO proceeds.
5 The amount represents gross revenue before corrections and rebates (see financial statements, Note 3). Revenue net of corrections and rebates was GEL 423.8 million in 2016 (2015: GEL 242.4 million, 2014: GEL 199.2 million).

Gross profit (GEL million)

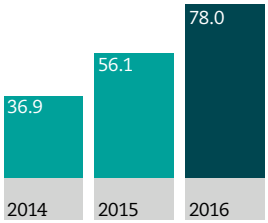


146.0

+56.8% y-o-y

Gross profit is defined as revenue less cost of goods sold.

EBITDA (GEL million)

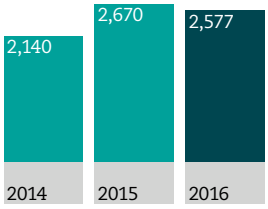


78.0

+39.0% 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

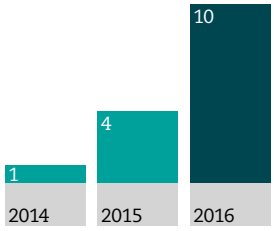


2,557

-4.2% y-o-y

Represents number of existing beds in inpatient hospitals including referral and specialty hospitals and community hospitals.

Number of ambulatory clusters



10

150.0% y-o-y

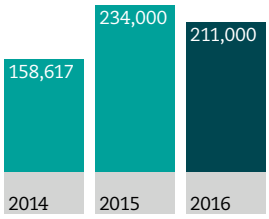
Represents number of existing ambulatory clusters consisting of one district and 3-5 express ambulatory clinics.

Number of pharmacies

243[1]

Represents number of existing pharmacies in Tbilisi and in other regions.
1 Including ABC pharmacies.

Number of insurance policyholders



211,000

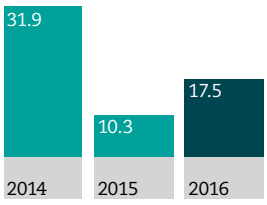
-9.8% y-o-y

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

Efficiency KPIs

The combined effect of the increasing share of referral hospitals in our revenue mix, together with increasing the number of ambulatory clinics, entering the pharma market and stabilising our medical insurance, together with the integration activities carried out throughout 2016 to the healthcare facilities acquired during 2014 and 2015 and pharma business in 2016, are the main drivers of efficiency strategy for our business. Other measures such as various investments in IT aimed at optimisation of workflow processes and implementation of centralised cost administration represent the cost control measures we continue to deploy across the board. Since the pharma business acquisition ("GPC") in May 2016, we have already realised GEL 6.7 million cost synergies while the initial guidance was total GEL 4.9 million. From ABC integration activates we expect total cost synergies GEL 11.8 million to be realised in 2017.

Healthcare services operating leverage (%)



17.5%

+7.2 ppts y-o-y

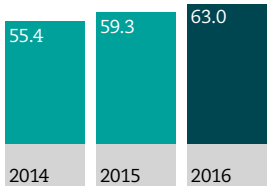
Calculated as the difference between percentage increase in gross profit and percentage increase in total operating costs.

Number of bills issued in pharma business (million)

7.9

Calculated by the sum of all the bills issued during the year.

Referral hospital bed occupancy rate (%)

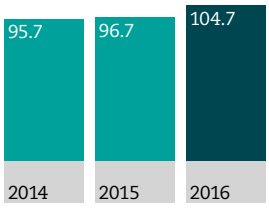


63.0%

+0.7 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 number of referral beds) available during the year.

Combined ratio (%)



104.7%

+8.0 ppts y-o-y

Combined ratio is the sum of loss ratio and expense ratio. Loss ratio as defined above. Expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue.

Resources and Responsibilities

By implementing evidence-based, modern approaches and scientific methodologies in quality management, we satisfy our patients' needs and deliver a solid financial performance. Our employees play a crucial role, in our success and as a consequence a key part of our ongoing strategy is to attract and retain the best qualified medical personnel and to constantly develop them in line with international best practices.

The concept of sustainability lies at the heart of our business and reflects our contribution to sustainable development – development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Our sustainability agenda allows us to be profitable as well as environmentally and socially responsible at the same time. We are pioneering sustainability practices in our operations and are constantly seeking new ways to improve our performance.

GHG is the largest private healthcare services provider in the Georgian market. The Group operates a network of medical centres and hospitals through its healthcare services business. Our services cover more than 75% of the Georgian population with clinics located across the country providing access to high-quality medical services including to those living in remote mountain regions. Accessibility to such medical services is ensured by scheduling regular visits by specialists to small towns and villages and by providing patients with transportation to larger clinics in urgent cases and in cases when more sophisticated treatment is required.

The healthcare services business of GHG also provides free regular medical examinations at various locations throughout the country including Batumi, Khulo, Keda, Shuakhevi, Poti, Kvareli, Telavi and others. In addition, GHG's specialists deliver free medical services, including examinations and treatments for the socially and economically disadvantaged members of the population. In cooperation with other healthcare institutions, Georgia Healthcare Group arranges free blood transportation and donations for its patients.

Furthermore, healthcare services business of GHG provides free medical check-ups at ambulatory clinics and referral hospitals. It also runs a wide range of charitable activities on a permanent basis for children with leukaemia.

Quality matters

Ensuring a high quality of medical care is essential for the Georgian Healthcare Group. Changes to our management team and a new business strategy initiated a number of fundamental changes to the way we approach the quality of our services. We are striving to build an effective model of quality management based on patients' preferences, evidence-based medicine and scientific methodology. We have adopted a quality management programme and developed a more consistent organisational structure for systematic quality assessment. We also constantly collaborate with international healthcare organisations and local medical schools to discuss and define the most up-to-date healthcare quality principles.

Quality management

Since 2015, we have created a Quality Management Programme that relies on modern approaches to quality matters in healthcare. The main goal of the programme is to form a new quality management framework based on methodical and comprehensive assessment of clinical practices. During the reporting period, we defined the programme's goals and strategies and developed the main working policies in accordance with national regulations and international best practices. In 2017, we will endeavour to ensure that sophisticated quality measures and indicators will be employed and our quality management framework adhered to, in every network clinic.

To manage the programme we work in committees as well as in working units, both of which will operate at local and head office levels.

Committees

We have defined the main functions of committees in respect of the quality management programme:

- identification of key quality and safety measures for hospitals;
- the provision of key recommendations for improvement based on analysis of quality metrics throughout the network; and
- trend observation and programmes approval.

We started with the head office and a few clinics but in the future committees will be formed for all referral hospitals. We anticipate that the committees of these referral hospitals will meet at least twice a year. At community hospitals, a chief clinical officer will cover quality management activities.

Working units

Our working units are responsible for the execution of defined quality management goals and objectives. They collect medical data in hospitals and carry out their own analysis for increased centralised reporting. Prior to 2015, there was only one single re-designed working unit responsible for all our hospitals' quality management and it only operated at a head office level. In 2015, we made it our goal to re-design the working units within each of our hospitals in order to allow us to focus on proper quality management at a local level. By the end of 2016, we had a total of 47 professionals in all our existing working units: five of them in our head office, 29 in regional referral hospitals and 13 in other hospitals.

Furthermore, in order to adjust the working units to their new functions we revised their existing structures, re-defined staff positions as well as responsibilities and job descriptions. Now each working unit has a chief quality officer, a junior quality control specialist, an epidemiologist and a nurse specialising in the prevention of hospital infection.

Working units are actively involved in other clinical standardisation processes relating to:

- optimisation of patient, information, medical and non-medical documentation flows;
- development of clinical protocols and standard operating procedures in hospitals; and
- the standardisation of billing and price processes.

Occasionally the units participate in other cross-functional and special projects. For instance, they set safety criteria for the expansion of hospitals in terms of infection control, patient safety, design and facility requirements for the Kutaisi Oncology Centre.

Databases

We understand that effective quality management can only be based on the monitoring of reliable indicators. Creating our own adequate Group-wide database has therefore been one of our major priorities. We have put mechanisms in place that allow us to routinely monitor core clinical activities. We have already established databases which set core quality and safety indicators for our units with the highest risk ("ICU", Neonatal Intensive Care Unit ("NICU"), Paediatric Intensive Care Unit ("PICU")). We have also created databases containing information on mortalities, penalties, medical errors and case reviews. An effective mechanism for providing reporting and feedback is also in the process of being created.

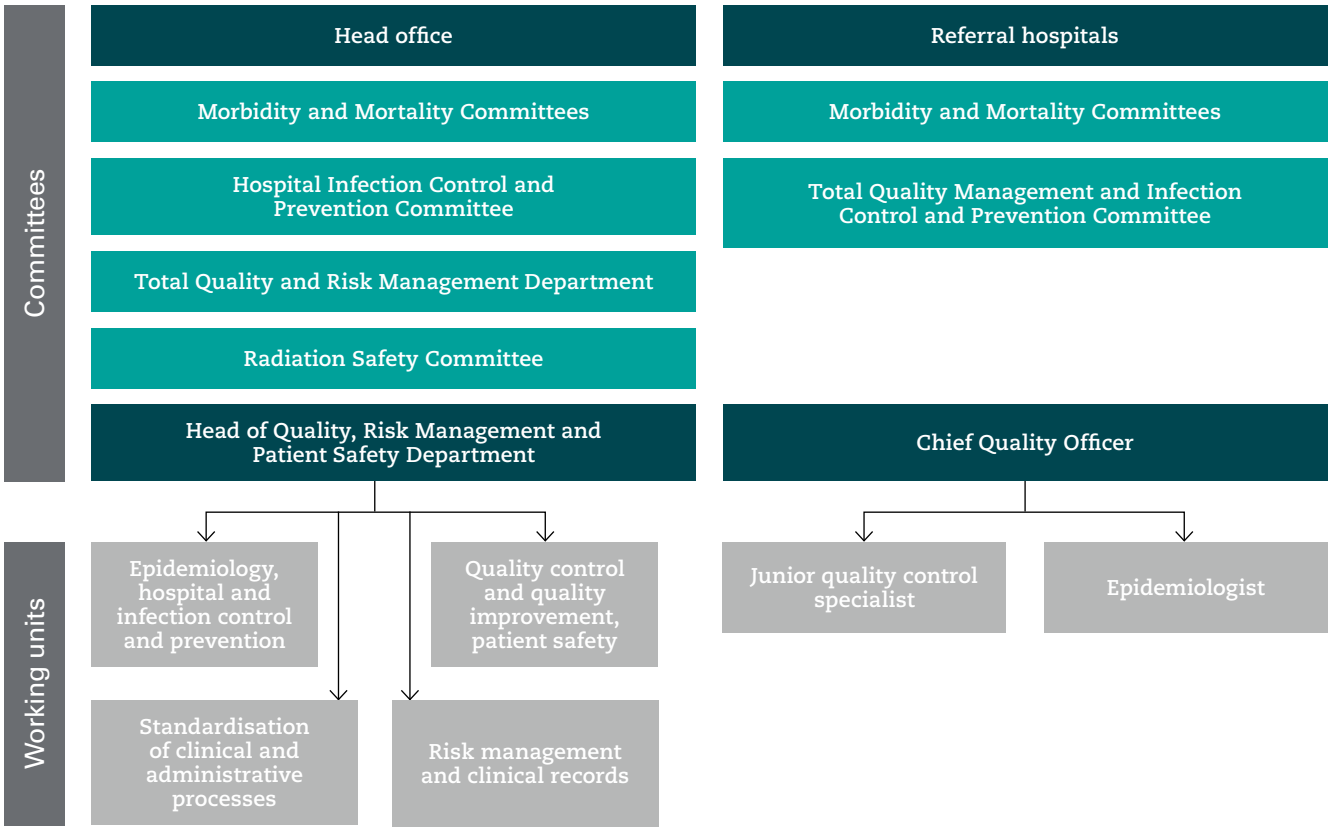
Quality standards

We strongly believe that for better quality management we need to standardise our clinical and administrative practices. We use both national guidelines and recommendations offered by international professional organisations as a base for standardisation. In 2014, we signed a memorandum of collaboration with the JCI, an accreditation institution for health care entities with high patient safety and quality standards. We have also closely cooperated with JCI experts to develop internal regulations, measures and indicators in accordance with its standards. Furthermore we have put in place additional quality improvements for antibiotic therapy for obstetric patients. We are continuously collecting information through our data collection system, which will serve as the basis for further analysis of our clinical practice.

The main objectives of our Quality Management Programme are to:

- implement quality methodologies, quality principles and quality management systems;
- apply a scientific approach to quality management;
- adopt inter-disciplinary approaches to problem solving and encouragement of team working;
- implement an unified approach to quality improvement consisting of: planning, development, implementation, measurement and analysis; and
- understand patient expectations and exceed them.

The Group's quality management organisational structure



Resources and responsibilities continued

Training of trainers' courses.

Training	Participant categories: ICU heads	ICU head nurses	IC nurses	Epidemi-ologists
HAI surveillance	✓	✓	✓	✓
Workshop to unify HAI, SOP and IPC protocols			✓	✓
Hand hygiene assessment tool kit		✓	✓	✓

Current and prospective infection control and prevention initiatives

Completion timeline:

2016

- Assessment of sterilisation in hospitals in the Imereti Region
- Waste management policies
- Sterilisation unit renovation project in Batumi referral hospital (to ensure the proper zoning)
- Akhalkalaki/Akhaltsikhe sterilisation units renovation process
- Sterilisation unit renovation in Children's New Referral Hospital

2017

- Baseline assessment of hand hygiene
- Improvement of IC supportive units (sterilisation, laundry and waste management)
- Audit of clinical pathways related to infectious diseases
- Creation of clinical protocols for infectious diseases and rational antibiotic therapy
- Renovation of isolation rooms in hospitals

Ongoing

- Sterilisation unit renovation project in Sunstone, Traumatology and Iashvili hospitals
- Databases for infection control surveillance
- Kutaisi sterilisation units renovation process
- Enhancing definitions and reporting forms for our Healthcare-Associated Infections ("HAI") surveillance

Centrally, we create protocols and pathways for our physicians and nurses based on the best national and international guidelines. These protocols and pathways serve as a tool for the standardisation of the basic processes related to our clinical activities. In order to track the adoption of and effectiveness of adjusted processes we perform selective clinical audits. In 2016, we conducted audits of activities related to radiation safety (in 13 hospitals), TB prevention (in 13 hospitals), sterilisation units (in four hospitals), laundry units (two corporation units and one outsource facility) and an audit of our APACHE scores in five of our hospitals.

Infection control and prevention
Our healthcare facilities host a large number of people every day and it is essential to protect our patients, visitors and personnel from healthcare-associated infections. We enhance our patients' safety by integrating effective infection prevention and control practices into our everyday clinical practice.

We conduct relevant training to equip our staff with hands-on experience and educate them on all new procedures and policies. This training has already been completed by the staff in a number of our ICUs head nurses and IC nurses.

Independent medical case review process
The independent medical case review process is designed to reveal systemic problems and to enhance preventive measures in our clinical practice. We have different case reviewing processes in place for: medical errors, mortality, sentinel events and near-miss cases. We collect all necessary information on each case, including the results of root cause analyses in order to develop appropriate response strategies.

In 2016, we designed a new medical case review process in our head office and in five major regional referral hospitals. Using this review process, we discuss recommendations for improvements with medical staff, then we supervise the improvement processes in our hospitals. We will further roll this process out throughout our network of hospitals and we also intend to organise our own training courses in near-miss review methodology.

Employee matters

Each of our employees plays his/her role in the delivery of quality healthcare services and is an integral part of the Group's success. We are rapidly expanding our healthcare operations and our headcount is growing accordingly. In 2016, the number of our employees increased by more than 3,000 bringing our total number to 12,811 people, making us the largest private healthcare employer in Georgia. In order to satisfy the growing needs of our business it is our first priority to attract, retain and develop the best qualified professionals.

In 2016, the Group entered the pharmaceutical market through the acquisition of GPC. It is our management's belief that the deal will have a positive impact on the value of the Group.

GPC is an urban-retailer, with para-pharmacies representing c.30% of revenues in 2016.

The role of data management and software solutions in people management is critical in the company of our size and operation. In order to manage Evex workforce efficiently, in 2016, we started a partnership with a new software developer who specialises in the Human Resources Management System ("HRMS"). Five modules have been purchased for use in our Human Resources ("HR") core processes:

1. HRMS data management;
2. recruitment management;
3. training management;
4. self-service portal; and
5. payroll management.

These applications are tailored according to GHG HR policy and procedural needs. Implementation of the HRMS and payroll application process started in 2016 and is scheduled to be finished by the end of second quarter of 2017. The software will significantly increase automation and optimisation of the workflow of many of our HR-related organisational procedures, including employee data administration, recruitment data processing and statistical and analytical reporting.

On the other hand, GPC develops its existing software according to newly emerged group HR needs and addresses them efficiently.

We recognise the fundamental importance of human rights and are committed to implementing socially responsible business practices. Our Corporate Handbook – Code of Conducts and Ethics establishes our main priorities and puts control procedures in place to provide equal opportunities and to prevent discrimination or harassment on any grounds. Our HR Policy applies to all employment processes, including training and development.

We are committed to employee engagement. We believe that communication and awareness is key, and to that end we strive to provide our employees with a continuous flow of information, which includes but is not limited to information about our corporate culture, the Group's strategy and performance, risks relating to its performance, such as financial and economic factors, and our policies and procedures. We provide information in a number of ways: by inclusion in departmental managers' presentations, our intranet, e-mail and regular town hall and off-site meetings. We value the views of our employees. We consult with our employees regularly and have implemented feedback systems, such as frequent employee satisfaction surveys to ensure that our employees' opinions are taken into account when making decisions which are likely to affect their interests. Employee feedback also helps to improve our customer service approach.

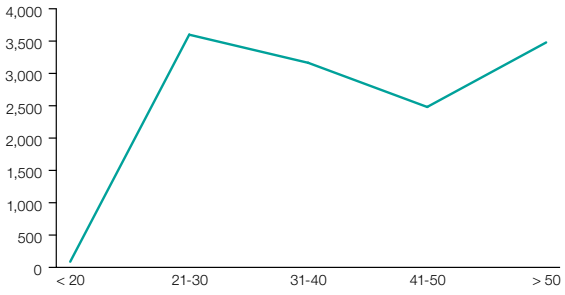
The Group gives full and fair consideration to applications for employment received from disabled people. The Group ensures that disabled people are fairly treated in both their training and career development. Should an employee become disabled whilst working for the Group, we will endeavour to adapt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

Talent attraction

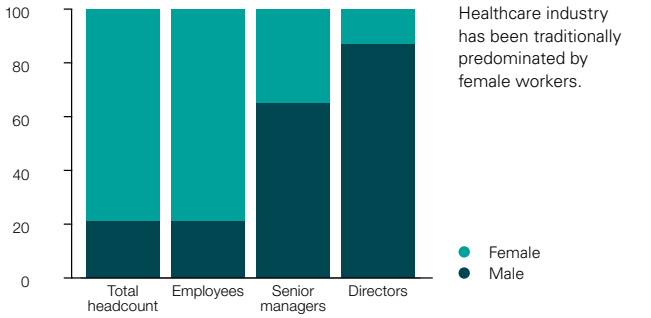
To ensure optimum human resources for our growing business and to maintain the high standards of our teams we are constantly looking for new ways of attracting the most talented experts. The Employee Planning and Recruitment Division is responsible for this process as well as for staff planning and recruitment by constantly updating the pool of candidates for our ongoing and forward-looking recruitment needs:

- vacancy announcements on job sites, social networks and other media sources;
- job fairs and "milk rounds" in universities;
- internship programmes with universities;
- post-graduate education "Residency" programmes;
- open and free training by Evex Learning Centre (founded by GHG);
- partnering with medical associations in Georgia and abroad;
- headhunting for key specialist and managerial positions;
- partnering with private and state HR employment agencies; and
- headhunting of Georgian specialists working abroad.

Total headcount of the Group broken down by age
(as of 31 December 2016)

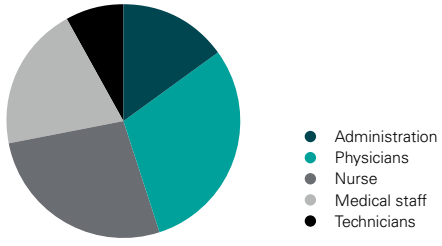


Gender distribution of the Group per employee category
(% of 31 December 2016)

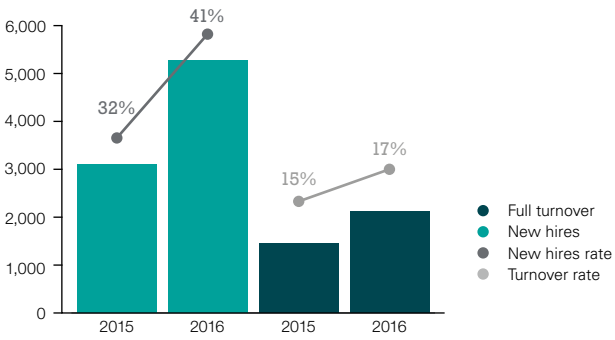


Healthcare industry has been traditionally predominated by female workers.

Headcount of Evex broken down by employee category
(% as of 31 December 2016)

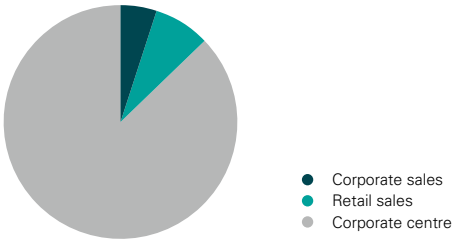


Total number and rate of the Group's new employee hires and employee turnover (%)

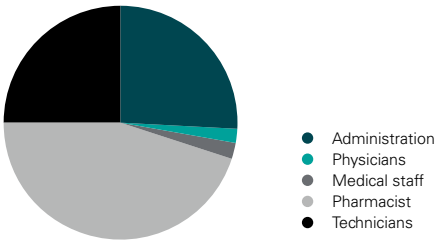


Resources and responsibilities continued

Headcount of Imedi L broken down by employee category (% as of 31 December 2016)



Total headcount of GPC broken down by employee category (% as of 31 December 2016)



Total headcount per employee category broken down by gender as of 31 December 2015 and 31 December 2016

2015

	Directors	Senior managers	Employees	Total
Female	1	23	7,602	7,626
Male	8	38	1,986	2,032
Total	**9**	**61**	**9,588**	**9,658**

2016

	Directors	Senior managers	Employees	Total
Female	1	29	10,050	10,080
Male	7	55	2,669	2,731
Total	**8**	**84**	**12,719**	**12,811**

We assess the competencies and knowledge of candidates with tests and various types of interviews including behavioural tests and case analyses. In addition, we conduct medical tests for medical candidates, such as physicians and nurses, whilst for administrative positions we use GMAT professional tests or general abilities tests.

Job fairs

Job fairs are one of the most effective tools for attracting young talent. During 2016, our healthcare services business ("Evex") participated in seven job fairs organised by our HR consultancy companies and leading universities in Tbilisi and other regions of Georgia. As for attracting medical students, in 2016 the HR department organised three meetings with students in leading medical universities in Tbilisi and five meetings in nursing colleges in Tbilisi and other regions. Evex attracted a total of 235 students from universities and colleges onto its nursing course as a result of these the job fairs. 61 of them finished the course and were recruited on to nursing positions.

Memoranda of Understanding with universities

Medical educational institutions continue to be our main resource of emerging talent. Both, Evex and its own learning centre – ("Evex Learning Centre") – established partnerships and signed Memoranda of Understandings ("MoUs") with various nursing colleges and universities. We provided them with our clinical sites for various educational purposes, including basic on-the-job education, training programmes and affiliated residency programmes. For instance, during 2016, Evex Learning Centre conducted six months free nursing courses for 235 students from nursing colleges. As mentioned above, 61 graduates who overcame the examinational barrier were offered jobs at our healthcare services facilities.

MoUs with nursing colleges

- "Kavkasioni" Community College
- "Akhali Talga" Community College
- "Sio" Community College
- "Etaloni" Community College
- "Orientiri" Tbilisi Community College and High School
- "Blacksea" Batumi Community College
- Batumi Public Academy
- Khitchauri Community College
- Akhaltsikhe Community College
- Kutaisi Medical School
- "Panatsea" Tbilisi College
- "Panaskerteli" Kakheti Regional College
- D. Tvildini Medical University Public Nursing collage
- "Millennium Academy" Community College
- "Meskheti Academy" Community Collage
- "Panaskerteli" Community Collage
- "Business Technology Academy" Community Collage
- "Tbilisi N1 Medical Institute" Community Collage

MoUs with universities

- The Hague University of Applied Sciences (THUAS)
- Akaki Tsereteli Kutaisi State University
- Shota Rustaveli Batumi State University
- Zugdidi State University
- D. Tvildiani Medical University
- Bank of Georgia University
- Akhaltsikhe State University
- Tbilisi State Technical University
- University of Georgia
- Ilia State University

Training and development

We invest a lot of effort and funds in various professional educational opportunities – mostly for our nurses and physicians at Evex and pharmacists at GPC. In 2016, Evex spent about GEL 2 million on training and development. The main expenses were for nursing training, ER specialists' training and advancement of specialists in various medical fields.

We are proud to have our own Evex Learning Centre, the only centre in Georgia offering continuous medical education. Apart from modern training methods, the centre offers up-to-date equipment, auditoria, computer labs and other facilities that conform to the highest international standards. Our learning centre independently develops and runs a variety of Continuing Professional Development Programmes ("CDP"). Most of the CDPs consist of medical training for physicians and nurses, although some non-medical staff, such as hospital administrators and registry employees also participated. We are proud to report that in 2016, the Evex Learning Centre trained a total of 2,299 nurse-participants, 2,035 physician-participants and 937 administration employees.

The training courses for our physicians are based upon national guidelines and protocols as well as the latest international findings. At present, there are no national standards or regulations for the training of nurses in Georgia. Georgia Healthcare Group is a pioneer in the training of nurses and we have created our own protocols, guidelines and training modules.

Our Pharma business ("GPC") employee development process is led by trainers (employees with a specific background in Pharmacology, Parapharmacy and Operational Standards), mentors (employees from different business units supporting on job training and inductions) and coaches (employees with appropriate backgrounds who conduct soft skills training).

Residency

In line with our strategy to develop a new generation of doctors in Georgia, we launched a postgraduate educational residency programme in a number of fields. These programmes ensure development of qualified specialists in areas where we have lacked physicians. Thus far, we have received a high level of interest in such programmes. Since the launch of the programme in December 2015, we have received 557 applications from prospective residents.

Partnerships

Our healthcare services business highly appreciates its partnership with D. Tvildiani Medical University, with whom Evex initiated and facilitated the opening of a joint Nurse College. With a strong international background, Tvildiani Medical University is one of the most popular medical universities in Georgia. The partnership includes a joint effort to ensure that high quality educational standards are achieved; promotes the field of nursing in Georgia and attracts more younger school graduates to encompass the needs of our healthcare services. Evex contributes 20% of the college expenses. It further offers a grant system and student loans for excellent students and provides them with further opportunities to advance their studies. As an additional incentive, successful graduates will be offered jobs at our hospitals.

Employee incentivisation

Evex has implemented a performance management system and pay-for-performance culture. At the beginning of each year, all business units plan collective and individual goals that are aligned with annual Key Business Objectives ("KBOs"). Our employees undergo annual or half-yearly performance assessments based on these KBOs and other competencies that reflect our values and the strategic objectives outlined by the Board of Directors.

Type of benefit	Number of participants in 2016	Total market value of the benefit (GEL)
Pension plan	67	–
Malpractice insurance	1,400	66,440
Medical insurance	7,603	501,725
Employee fund	1,941	69,870

Managerial and back office employees are assessed annually, both at the head office and in clinics as well. Front end employees (e.g. registry office) are assessed twice a year. Clinic directors are assessed on the quarterly bases and receive feedback and development plan from their supervisors.

We created both financial and non-financial incentive schemes to increase productivity and job satisfaction amongst our employees. These incentives vary from role to role. We offer non-monetary benefits that include medical insurance, malpractice insurance, pension plans and allowances for accommodation, transport and coverage for mobile expenses.

Evex nurses who successfully graduated our internal nursing standards training are granted with additional pay for one year, until another annual attestation.

We pay attention to employee engagement and satisfaction. In 2016 Evex established a new "Corporate culture development division" which aims to create our corporate culture and spirit by nonmonetary motivation, employee surveys, team building events.

Staff bonuses are paid on a monthly/quarterly basis as defined within the GPC realisation plans. Every employee who participates in any kind of sales process is included in a material motivational scheme, the specifics of which vary according to their position and responsibilities. Technical staff do not receive any type of bonus. In addition to those mentioned above, other types of incentives for employees include: gifts, one-time premiums, thank you letters and certificates. To motivate the employees of GPC we may authorise initiate the payment of annual, quarterly, monthly and one-time additional bonus and payment principles. Additionally, front line staff is annually awarded with "thank you" certificates in categories such as best service and best consultant. The best of the best employees may be sent for a weekend trip abroad. GPC employee's assessment methods include a categorisation examination for front staff (pharmacists, consultants and pharmacy managers), a manager assessment with a special questionnaire and structured interview enabling the employer to evaluate the employee, overall performance and competencies as well as KPI fulfilment which include both quantitative and qualitative criteria. For front line staff this takes place annually, while Pharmacy Managers are appraised once every two years.

Policies

The Group has in place a Code of Conduct and Ethics, Anti-Bribery and Anti-Corruption Policy, Whistleblowing Policy and an Environmental and Social Policy. These relate to our environmental matters, employees, social matters, our respect for human rights and anti-corruption and bribery.

Copies of these policies can be found on the Group's website; http://ghg.com.ge/page/id/130/policies.

Community matters

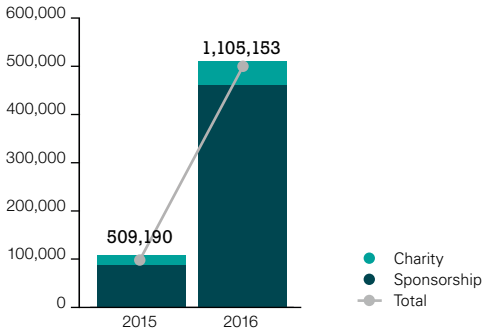
The Group considers the interests of its main stakeholders, which include patients, customers, shareholders, employees and society, in the development of its strategy and operations improvement processes. We strive to positively contribute to society through the entire scope of our business activities by developing socially oriented services, implementing responsible approaches to our business operations and carrying out sponsorship and charitable activities. In doing the foregoing we follow our undertakings in respect of social and community matters set out in our Environmental and Social Policy.

The Group is proud to serve three-quarters of Georgia's population and makes every effort to promote the healthy living and wellbeing of local communities. 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.

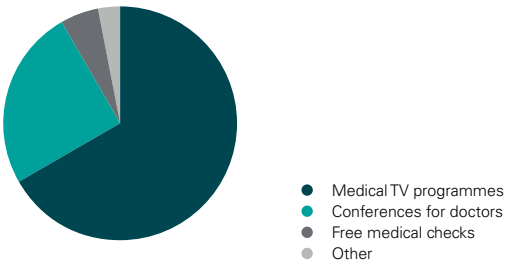
In 2016 the healthcare services business significantly increased its financing of existing sponsorship projects as well as commencing new ones. As a result, the Group's total sponsorship and charitable spending increased more than two times to GEL 1.1 million.

Resources and responsibilities continued

Total sponsorship and charity expenditure of Evex
(GEL)



The Evex's sponsorship and charity expenditure distribution
(%)



Free medical services

Children's hospice

On 17 January 2017, the first children's hospice "Firefly World" was launched in Georgia. The children's hospice is a family-orientated facility, which will provide palliative care for children with chronic and incurable illnesses. The hospice will provide three basic services:

- a 24-hour service for ten children at any one time and their parents;
- a daytime centre, where children and their parents can stay throughout the day to receive the necessary services; and
- a home care service, which has been in place for the past year and provides services to 26 children, which will continue to operate.

Construction of the children's hospice was launched in October 2015 upon the initiative of the Open Society Georgia Foundation, with initial funding from Evex as well as with the support of the President's fund. Since then, hundreds of donors, among them ordinary citizens and business companies, expressed readiness to support the hospice. Over GEL 1 million was raised during a year to build the hospice. The children's hospice project is the outcome of one of the best examples of cooperation between business, the non-Governmental sector, the President, journalists and citizens alike. The Tbilisi Children's Hospice aims to conform to the standards of the world's best hospices. Besides having professional and attentive personnel, the environment, interior, name of the hospice and all those details, which largely determine children's life in the hospice, are extremely important. The Tbilisi Children's Hospice has only recently started receiving patients and the home care service has been working very successfully. We now have 26 patients and a new day-care centre.

Children's oncology programme

The Group traditionally participates in the state Children's oncology programme under which we offer oncology treatment for children in our Iashvili Paediatric Tertiary Referral Hospital, a multi-profile paediatric medical establishment. Our clinic is an unique provider of this service in Georgia, for which about GEL 2 million is subsidised annually. In 2016, 701 young patients received treatment under this programme.

Promotion of Health Awareness

Sponsoring medical TV programmes is our way of promoting good health awareness and practices, enabling us to reach a wide range of the Georgian population. We have five TV shows: The Doctors, Day Show, Impulse, Medical hour and Mechanical Ventilation ("Khelovnuri Suntkva", a soap opera). All shows share their relevant health expertise in a simple and clear manner on various health and wellness issues such as screening programmes, allergies, cardio vascular disease, oncology, arthritis and others. Sometimes celebrity interviews are conducted, health news, healthy recipes and helpful tips are also broadcast during the shows. As our medical TV programmes proved to be very popular in 2015, we increased their scale and financing from GEL 177,180 in 2015 to GEL 730,841 in 2016.

Name of the TV show	Launch date	Frequency	Format	Reach (RCH) rating[1] in 2016
The Doctors	August 2014	Every Sunday on Rustavi 2 channel	Anchors and show guests discuss practical health and wellness issues.	16.3%
Day Show	September 2015	Every Thursday on Imedi TV channel	Broadcasted live. During the show one of the Evex physicians provides his expertise on a particular health issue.	11.64%
Impulse	July 2009	Every Friday on Adjara TV channel (regional)	Practical health and wellness information.	–
Medical hour	April 2014	Every Friday on TV 25 channel (regional)	Practical health and wellness information.	–
Mechanical Ventilation – ("Khelovnuri Suntkva", soap opera)	June 2016	TV Channel "Rustavi 2"	Soap opera is about the personal and social life of the characters who work at the emergency unit.	18.9%

1 The cumulative percentage of the population that has been counted as viewers at least once during a specified interval.

Conference name	Place	Date	Main topics covered
GIMPHA ("Georgian International Medical and Public Health Association") annual meeting	Tbilisi	21-22 May 2016	Podiatry, infection diseases, neurology, plastic surgery, management of inborn neurometabolic diseases, dermatology breast oncology.
Development of primary first international healthcare conference in Georgia, by Evex	Tbilisi	16 April 2016	Development of primary healthcare and outpatient services in Georgia by Evex, family medicine and its development in Slovenia, being a good GP in a different culture: challenges, lesson and rewards, main principals of children health and development supervision in primary healthcare, congenital heart disease – referral criteria, approach to geriatric patients, infectious diseases in geriatric population, cardiovascular risk stratification in primary care and metabolic syndrome.
First Georgian international congress on emergency medicine	Tbilisi	15-17 June 2016	Cardiology, ICU, administrative issues in ICU, PICU, the role of ICU in healthcare system, emergency medicine development in Europe and clinical researches.
Achievements of Modern Reproductology. The Role of Surgery	Tbilisi	11-13 November 2016	Future trends of human reproduction, impact of Preimplantation Genetic Testing ("PGT") on ART, laparoscopic preservation of ovaries through monoport and ovarian microorganic transplantation, sperm analysis, distorted mirror of male fertility, male factor of infertility, update of research from lab to clinic, the importance of quality control in embryology and andrology lab, surgical operations live session, modern approaches of treatment of uteral nodular myomas, laparoscopic cerclage in patients after cervical surgery, laparoscopic metroplasty of the lower uterine segment, the long-term effects of Stein-Leventhal Syndrome and the controversies beyond, PCOS, the role of surgery, repairing prolapse with and without Mesh, the role of hystero-resectoscopy in the treatment of RPL, Mayer-Rokitansky-Kuster-Hauser Syndrome – modern approaches and surgical treatment, vaginal hysterectomy in modern gyneacology.
First South Caucasus Conference – Modern diagnostic and treatment aspects in children with disabilities	Tbilisi	1-2 December 2016	Long-term neurodevelopmental outcome of pre-term infants. The role of orthopaedic surgery in improving the quality of life. Assessment and management of behavioural disorders in children. Perinatal brain damage in children: neuroplasticity, early intervention and molecular mechanisms of recovery. Assessment and management of children with neurodevelopmental disorders. Comparative effectiveness of the management of motor system disorders with different methods.
VII Caucasian Regional Summer School on Clinical Epileptology (CRSSCE-VII)" Epilepsy: pharmacological and alternative treatment"	Tbilisi	24-26 May, 2016	Classification of epileptic seizures and syndromes, principles of pharmacological treatment of epilepsy, evidence of pharmacological treatment in adults with epilepsy, tutored case oriented studies – classification of epilepsies in children and adults, MRI investigations in children and adults by epilepsy protocol, tutored case oriented studies-EEG/children/adults, tutored AED drug interactions, new and old AEDs, epilepsy resistant to AED, therapeutic strategies in paediatric epilepsies, two epileptic encephalopathies, video-EEG in paediatric epilepsy, alternative treatment in paediatric epilepsy, perspectives of epilepsy surgery in caucasian countries, case studies on EEG, MRI, phenomenology of seizures, management of AED treatment and their side effects, AEDs drug interactions, non-epileptic seizures in children, diagnosis and management of pharmacoresistant epilepsy in children.

Resources and responsibilities continued

			2016		2017
Project	Positive impact on the environment	Project timeline	Activities carried out	Results	Plans
Installation of e-document flow	Natural resources conservation, electricity saving (for printing), waste reduction	2015-2016	Implementation, setup, start-up	Several hundred of paper packages saved	Fully employment in Evex
Installation of system for reusing water	Decrease in water withdrawal from sensitive ecosystems, decrease in waste water discharges	2016-2017	Start-up	Implemented in one clinic	Under consideration
Creation of our own water wells	Energy saving due to minimisation of water transportation and natural filtration of water	2016-2017	Five water wells were set up	500 tonnes of water saved	Set up five additional water wells
Delivering gas instead of diesel to the mountain regions	Greenhouse gas emission reduction	2016	Start-up, implementation	Implemented in all clinics, except one	Finish works and save 60 tonnes of diesel monthly
Improvement of heat insulation	Non-toxic insulation, energy saving due to reduction in heat consumption	2016-2017	Planning	–	Reconstruct two hospitals by implementing eco-friendly heating systems
Installation of resource-saving equipment	Energy saving	2016-2017	Equipment tender held	–	Purchase various resource-saving equipment
Installation of LED lamps	Energy saving, no mercury, little infrared light, close to no ultraviolet emissions and less hazardous waste	2016-2018	LED lamps installed in some departments	Several hundreds of kilowatt hours saved	Install LED lamps in at least 13 clinics
Water waste treatment plant installation	Reduces the health risks associated with environmental pollution, reduce water pollution	2017-2018	Equipment tender held	–	Install in at least two clinics

Conferences for doctors

We believe that professional medical education is a cornerstone of healthcare quality in Georgia. For this reason, we make an effort to develop a healthy learning environment by financing international and local medical conferences. In 2016, we sponsored six medical conferences which brought together medical scholars and health care practitioners from Europe, Asia and Georgia to share knowledge and experience that influence and shape healthcare delivery. As a result, in the reporting period we almost doubled our support of conferences (from GEL 149,684 to GEL 276,178 respectively).

Environmental matters

We recognise that our operations have an impact on the environment and we approach this matter responsibly. Most of the Group's environmental impact comes from medical waste generation and combustion of fuels both for stationary use and for owned vehicles. We also have an affect on the environment by using significant amounts of water in our hospitals, purchasing electricity and paper. Although our overall negative impact is relatively low, we still aim to become more resource efficient and environmentally friendly.

In 2016 we developed our waste management policy with this aim in mind.

Waste management

The hospitals' most significant environmental impact is associated with the generation of medical waste. Environmental risks can be significantly minimised with proper waste handling and safe disposal. In identifying and minimising this environmental impact and putting these procedures into practice we follow the undertakings in respect of environmental matters set out in our Environmental and Social Policy. Our waste management procedures are compliant with the relevant Georgian legislation which defines risk categories and appropriate procedures for medical waste treatment.

To prevent human and environmental harm, our clinics collect and dispose of medical and biological waste through an outsourced service specialising in medical waste disposal. For the collection of waste, we use plastic bags that have sufficient strength and are secured with staples to safely retain waste. Also, we do not fill more than two-thirds of the bags' capacity. Further, steam sterilisation is used to decontaminate biological and bio hazardous waste, including blood. All used sharps are placed only in labelled, hermetic single-use dedicated containers made of hard plastic. Waste is collected from our sites daily, twice a day when required. The maximum on-site storage time of waste is up to 24 hours.

To ensure the reliability of our contractors we examine their certificates and monthly reporting and impose penalties if necessary. In total, our hospitals generated 462 tonnes of medical waste in 2016.

Tonnes of CO_2e	2015	**2016**
Scope 1 (emissions from combustion of fuels in stationary equipment and in owned transportation devices)	4,517	**6,517**
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	8,093	**10,302**
Scope 3 (emissions from air travel and land transportation)	2,385	**3,621**
Total GHG emissions	14,996	**20,440**
Total GHG emissions per FTE	1.55	**1.59**

Greenhouse gas emissions management
To light our hospitals' premises and run the necessary medical equipment we annually consume thousands of kilowatts of electricity. In fact, electricity usage accounts for approximately half of our total greenhouse gas generation. To reduce our negative impact, we implemented a number of energy saving solutions, such as installation of LED lights and energy efficient equipment. We also work out ways to minimise our carbon footprint by other means. For instance, heat insulation is being improved in a number of hospitals. Despite this there was still an increase of Scope 2 emissions in 2016 mainly due to electricity consumption by Groups' new subsidiary GPC that we acquired during 2016.

Further steps
In the coming years, we plan to implement a number of initiatives that will bring positive impact both on the environment and on our operating efficiency.

Appendix 1. GHG Emissions Calculation Methodology

We have reported on all of the emission sources 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 do not have responsibility for any emission sources that are not included in our consolidated statement.

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

Factors for Company Reporting 2015.

The reported data is collected and reported on for three of our Group's businesses:
- healthcare services, including its head office, hospitals and other entities where GHG has operational control;
- pharma, including its head office and pharmacies; and
- medical insurance, including its head office.

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 transportation devices (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 conversion factor for Non-OECD Europe and Eurasia (average) conversion from the UK Government's GHG Conversion Factors for Company Reporting 2015; and
- used heat and steam.

Scope 3 includes emissions from:
- air business travel (short haul and long haul); information on class of travel is unavailable hence we used an "average passenger" conversion factor; and
- ground transportation, including taxi, coaches and car hire.

Data on emissions resulting from travel is reported for business-related travel only, and excludes commuting travel. Data from joint ventures, investments or sub-leased properties have not been included within the reported figures.

The data is provided by onsite delegates, invoices and meter readings.

Risk management

We are exposed to a variety of risks and uncertainties which could have a material adverse effect on our business, financial position, operational results and reputation as well as 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 framework has been in place throughout the year ended 31 December 2016 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 and 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 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. Our culture also seeks 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 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 2016 and 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. Through senior management, we ensure that our employees are given the appropriate training and knowledge to perform their roles in line with the framework we have developed. A detailed description of the Group's risk management and internal control framework can be found in this Risk Management section.

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.

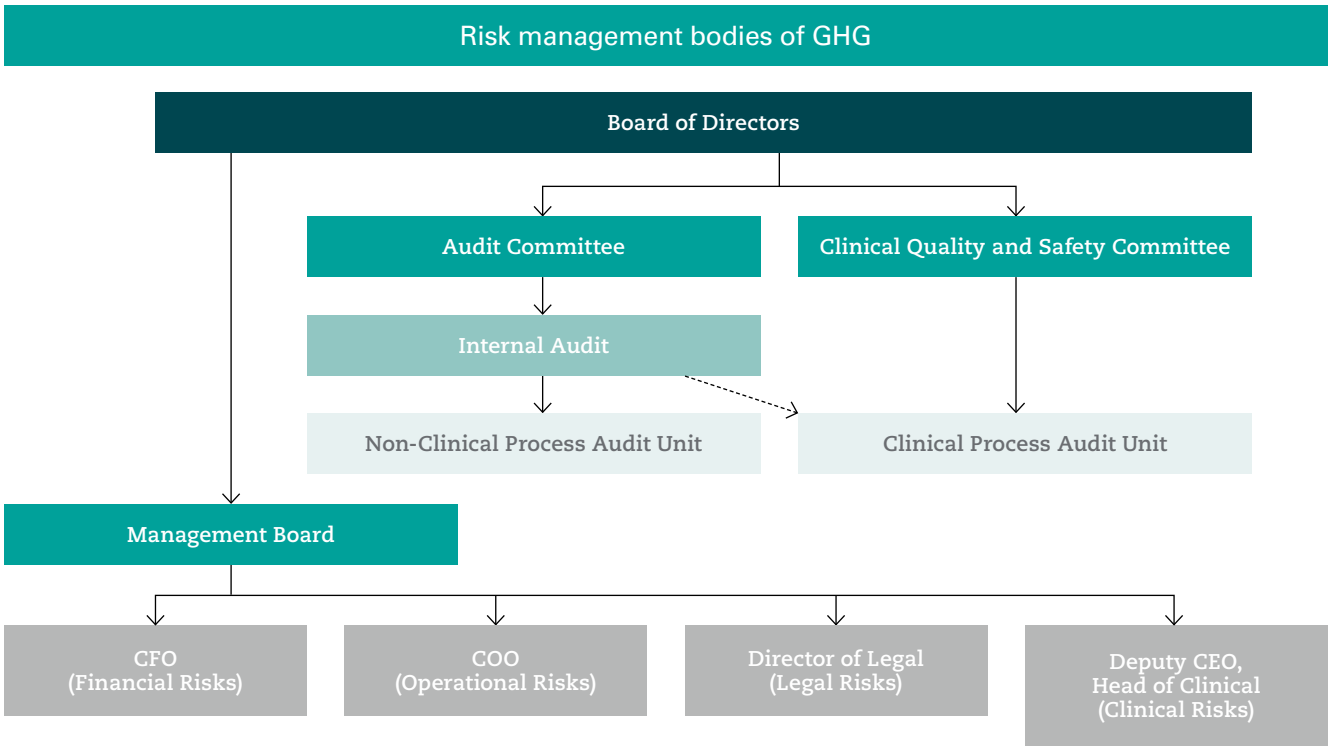
For each risk identified at any level of the business, the risk is measured, mitigated (where possible) in accordance with our policies and procedures and monitored. Managers are required to report on identified risks and responses to such risks on a consistent basis. Senior management reviews the output 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.

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 if 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.

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 68 to 71.



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 control which have operated throughout to the year ended 31 December 2016 are:

- procedures for the assessment, approval, control and monitoring of major capital projects, including acquisitions and disposals such as the acquisition of GPC and ABC pharmaceutical businesses;
- 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 and division of responsibilities;
- 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 Clinical Process Audit Unit, the Head of Clinical, the Director of the Legal Department and the Chief Financial Officer;
- the close involvement of the Executive Director in all aspects of day-to-day operations, including regular meetings with senior management to review all operational aspects of the business and risk management systems;
- a structure of operational committees that have established various policies and which monitor the risk in the given operation;
- a Remuneration Policy for executives, which motivates them appropriately without encouraging excessive risk taking (the Remuneration Policy can be found on pages 107 to 113), which for the period applied to the Executive Director only);
- reviewing and monitoring the operation of the Whistleblowing Policy and procedures in place to allow staff to raise concerns on a confidential or anonymous basis about possible legal, regulatory, financial reporting or other improprieties;
- 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 and external auditors; and
- 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.

Internal control

Board and Board Committees

As mentioned above, our Board is responsible for reviewing and approving the Group's system of internal control and its adequacy and effectiveness. Controls are reviewed to ensure effective management of strategic, financial, operational 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/page/id/135/schedule-of-matters-reserved.

With respect to other matters, as above, the Board is often assisted by the Audit Committee and Clinical Quality and Safety 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 Group's internal financial controls and internal control and risk management system, control weaknesses, fraud or misconduct, IT, cyber security, compliance, corporate security and similar areas of operational risk. 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.

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 respective quality and safety risk management system is implemented by the Clinical Department. The Clinical Department prepares reports and analyses for the Clinical Quality and Safety Committee and engages in discussion of the findings and risk areas for further mitigation and improvement. Interaction is at least quarterly, however, may be more frequent, upon identification of reportable conditions and risks. The Clinical Quality and Safety Committee defines and approve key policies and targets for the Clinical Department during the year.

Risk management continued

Financial Reporting and Internal Audit Department

With respect to internal control 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 that include analyses of our business results along with comparisons to relevant strategic plans, budgets, forecasts and prior results.

These are presented to and reviewed by senior management. 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 external and 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 Chairman 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 a programme approved by the Clinical Quality and Safety Committee. The Head of Clinical Process Audit Unit has a direct reporting line to the Chairman of the Clinical Quality and Safety Committee. Just as the Internal Audit reports 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.

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 event, near misses, medication dispensing errors, adverse drug reactions, 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 preliminary defined quality and safety goals. The Clinical Department also identifies what is the financial loss attributable to medical malpractice and penalties. Clinical risk assessment and analysis process is based on the detailed study of the failure events, analysis of the risks associated with these failure events and their root causes as well.

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.

Whistleblowing

Our systems of internal control are also supported by our Whistleblowing Policy, which allows employees to report concerns on an anonymous basis using a 24-hour hotline or a sealed message box in Head Office. The Audit Committee approves the Whistleblowing Policy on an annual basis and receives reports from the Director of the Legal Department on any significant issues raised.

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 and compliance controls. The latest review covered the financial year ended 31 December 2016 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 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 2014 (the Code) and the FRC's (Financial Reporting Council) guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

In 2017 we will continue striving to improve our risk management. In particular the Group is putting into place a centralised Risk Department to better coordinate the management of risk within the Group. On 27 March 2017 the new Chief Risk Officer was appointed to this new role to develop and lead this new department.

Committee reports

As noted throughout this discussion, both the Audit Committee and 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 Clinical Quality and Safety Committee Report can be found on pages 92 to 96 and pages 97 to 98, 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 80. 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 2 to 80. 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 revenue, EBITDA and net profit grew by 73.4%, 39.0% and 159.7% per annum, over last three years. All of the Group's strategies across all business lines are threaded by a long-term sustainable growth through a well-managed and sustained long-term leverage levels. None of the Group's investments are short-term and all of them are oriented on long-term value creation for its shareholders.

Viability statement

In accordance with provision C.2.2 of the 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 2017, 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-period planning within existing operating and macroeconomic environment.

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

- the Group's financial and operational position, including key metrics;
- Group's cash flows and capital allocation;
- the Board's risk appetite;
- the Group's business model and strategy as set out on pages 2 to 80;
- the Group's principal risks and uncertainties, as set out on pages 68 to 71;
- 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, while not necessarily severe in themselves, but could escalate when combined with others, as well as risk combinations. For each risk, we considered our risk appetite and tolerance as well as risk the 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 fact scenario to that effect immediately: a) reduction of UHC tariffs by 5%; b) extension of an average State receivables collection cycle from current four months to six months; c) increase of supplier prices by 5%, as a result of the exchange rate pressures on imported goods; d) a sudden deterioration of the receivables credit risk by 200 bps; e) depreciation of Lari by 20%; f) instant growth of total insurance claims by 15%; and g) in the last scenario, all of the previous stress scenarios happening all together. The stress test scenarios were then reviewed against the Group's current and projected liquidity position, considering current committed funding. 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. No mitigating actions were required except for scenarios b) and g).

The Directors have also satisfied themselves that they have the evidence necessary 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 2017 to 31 December 2019.

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, material controls which have been put in place to mitigate the principal risks 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 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.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Integration		
The Group has grown in size, and added sectors, through acquisitions including of its pharmaceutical businesses. The Group may face challenges in integrating its new businesses into its existing Group. Challenges could include but are not limited to the full integration of IT systems, a lack of human resources and failure to achieve expected synergies. **Impact** Failure to integrate successfully would adversely affect anticipated synergies, our strategy, projected growth and revenues.	In May 2016 and January 2017 the Group completed the acquisition of JSC GPC and JSC ABC Pharmacia (brand name Pharmadepot) respectively, adding the new business lines of pharmaceutical retail and wholesale chains.	• The integration team meets at least weekly to discuss all aspects of the pharmacy integration process, including but not limited to strategy, financial, commercial, clinical, IT, human resources and legal matters. • The wider team involved in integration are highly skilled and experienced, having carried out over 30 integrations and acquisitions in the last six years. • Key personnel and management from GPC and ABC Pharmacia have joined the Company to ensure business continuity including GPC's CEO, and ABC Pharmacia's CEO and COO.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation

Compliance

The Group operates across the healthcare ecosystem and is subject to a complex spectrum of laws, regulations and codes.

In addition the Group operates in an emerging and developing market in which legislation is evolving and there may be further changes which affect the Group's business.

Impact

Non-compliance with applicable laws, regulations, codes, authority or regulatory requirements, including those specific to tax, insurance or healthcare, or the settling of disputes or law suits, 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.

- Changes to the UHC are being introduced in 2017 in respect of certain categories of employed persons and the full detail is not yet known.
- In October 2014, an anti-monopoly agency was established and anti-monopoly legislation was implemented in respect of certain operations. We expect that such 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.
- The Group is involved in contractual and other disputes and litigation.
- Our healthcare service business includes a network of different hospitals and a nationwide chain of ambulatory clinics, each of which must comply with extensive documentation requirements and documentation maintenance requirements.
- Regulatory Authorites (Social Services Agency and state supervision agency of medical activities) conduct periodic inspections of Group clinics in order to determine the compliance with relevant regulatory requirements.

- Engaging in constructive dialogue with regulatory and Governmental bodies, where possible, and seek external advice on potential changes to legislation.
- The Group has policies, procedures and controls to fulfil our compliance obligations, for example, Infection Control Management, Quality Management, Sentinel Event. Management and Waste Management.
- The Group's Legal Department is involved in every material contract and advises on contractual disputes and litigations.
- The Tax Unit of the Finance Department follows changes in tax legislation and initiatives, checks compliance with rules and is involved in significant contracts.
- The Company has extensive process management systems in place to ensure that all documentation is carried out to a consistent standard and in compliance with Georgian regulatory requirements.
- Regular Audits are carried out internally by a team of experienced practitioners and a quality control unit. Their programme and audit results in respect of medical documentation are reviewed by the Clinical Quality and Safety Committee every quarter. Outcomes and changes to process are circulated throughout the Group.

Clinical and Medical

We are exposed to medical risk given the nature of our operations.

The success of our healthcare services depends on our ability to recruit, train and retain an appropriate number of experienced physicians, nurses, technicians and other healthcare professionals and to deliver internationally recognised clinical care.

We may not be able to provide the latest treatments and equipment or the range of services required.

Our patients may contract serious infections or communicable diseases at our facilities because of the risks typically closely associated with the operation of medical care facilities.

Impact

Failure to comply with internationally recognised clinical care and quality standards or contracting serious infections or communicable diseases at our facilities or inability to recruit, train and retain appropriate practitioners could result in claims for damages, operational limitations a result of regulatory restrictions, affect patient loyalty or ability to attract patients, or loss of reputation.

- There is a shortage of suitably skilled and accredited medical practitioners in Georgia.
- The hospital and outpatient network has grown rapidly during 2016 and requires the appropriate practitioners with the skills and experience to service it across a range of specialties.
- Our operations involve the treatment of patients with a variety of infectious diseases. Previously healthy or uninfected people may contract, during their stay at or visits to our facilities, serious communicable diseases.

- Talent attraction, including the key specialists recruitment programme is further explained in the Resources and Responsibilities section, on pages 57 and 58.
- We provide an extensive training and skills development programme, see the Resources and Responsibilities section, Training and Development on pages 58 to 59.
  This work will continue in 2017.
- Our strategic objectives include investing in gaps we have identified in the medical services market.
- Investing significantly in medical equipment and our network of healthcare services allow us to maximise the use of this equipment.
- The Chief Medical Officer now has a comprehensive quality and safety structure in place with experienced practitioners in key roles.
- The Clinical Quality and Safety Committee meets at least quarterly to review the Group's clinical services and performance, controls and compliance.
- Board members have visited a number of sites throughout 2016 to review practices and to discuss quality and safety with key practitioners.
- The Group has commenced a programme of initiatives on infection control, antibiotic stewardship, tuberculosis prevention and safety.

Principal risks and uncertainties continued

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Concentration of Revenue		
Our healthcare services business depends on revenue from the Georgian Government and a small number of private insurance providers for the hospital and clinic business lines, and therefore we face risks related to the Universal Healthcare Programme ("UHC"). 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.	Our ability to obtain favourable prices will depend in part on our ability to maintain good working relationships with private insurance providers and would be impacted by any changes to state funded healthcare programmes.	• The UHC remains a significant priority for the Government and Government expenditure on healthcare increased in 2016 by 21% from GEL 826 million to GEL 996 million according to the approved Government budget for 2016. • The Group monitors the macroeconomic environment in Georgia and budgetary performance of the state to assess the forecasted future cash flows from the State. • The Group has diversified its portfolio by the addition of pharmaceutical retail and wholesale business lines.
Currency		
The Group has foreign currency exposure, as a significant proportion of the medical equipment and pharmaceuticals we purchase are in Dollars and/or Euro but our revenues are in Lari. A portion of our borrowings, particularly from Development Financial Institutions, is foreign currency-denominated. **Impact** Depreciation of the Lari against Dollars and/or Euros would adversely impact on our financial position and cash flows.	The Lari has depreciated in value in 2016 by 10.5% against the Dollar and 6.8% against the Euro.	• The Finance department monitors and the Management Board reviews our currency positions and adjusts strategies accordingly. • We adjust our prices to reflect the fluctuation in foreign currency exchange rates to reduce their impact. The Group takes into account depreciation of the Lari in pricing discussions with counterparties. • The Group has also prepaid a number of Dollar denominated loans and replaced them with Lari denominated loans and its remaining open position is small.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation

Information Technology and Operational

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.

In the event of the Group experiences information technology failure, important and confidential information may be lost. Software or network disruption may cause the Group to experience lost revenue, failed customer transactions or non-timely submission of extract or mandatory 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 to our business and operations, affect patient and customer loyalty, subject us to state and Governmental investigation, litigation, damages, penalties and/or reputational damage.

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

Cyber-security threats are increasing year after year.

The Group has expanded and has an increasingly complex operations to manage. The recently acquired pharmaceutical business has a separate IT department which covers the information, cyber security and hardware separately.

- The Group's Information Security Team within the IT Department tackles IT and security threats for its healthcare and insurance businesses. The IT Infrastructure team handles hardware projects and matters for the healthcare and insurance businesses.
- We are planning to consolidate the Group's efforts for information technology risk and bring the integrated process closer together with common standards and procedures.
- 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.
- The Group has recently integrated a new core operating system Vabaco into its healthcare business, such system having already been integrated with the Group's core ERP, Exact, thus decreasing risks arising from human error and protecting the integrated data better. Vabaco is fully integrated with all external payment channels. As a result of this, nearly all of the healthcare services business runs on one unified platform with substantially increased functionality, capacity and speed.
- The Group continues to design and implement new business processes and risk management structures to better manage the business and to help mitigate our operational risks.

Macroeconomic and Political

We face macroeconomic and political risk.

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

Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia and with Russia and regional tensions could materialise or increase.

Impact

Negative macroeconomic developments or escalation of conflicts may have an adverse effect on our business including putting adverse pressure on our business model, our revenues and our financial position.

Tensions have recently increased between Russia and Turkey. Conflict remains unabated between Azerbaijan and Armenia.

- The Group actively monitors market conditions, reviews market changes and performs stress and scenario tests in order to assess our financial position.
- Regular meetings of the Supervisory Board Audit Committee and the Management Board further analyse instability risks and forms responsive strategies and action plans.

Overview of financial results

Discussion of Group results

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	FY16	FY15	Change, y-o-y
Revenue, gross	**426,439**	245,969	73.4%
Corrections and rebates	**(2,686)**	(3,608)	-25.6%
Revenue, net	**423,753**	242,361	74.8%
Revenue from healthcare services	**243,453**	191,424	27.2%
Revenue from pharma	**133,002**	–	–
Net insurance premiums earned	**61,494**	58,552	5.0%
Eliminations	**(14,196)**	(7,615)	86.4%
Costs of services	**(277,735)**	(149,232)	86.1%
Cost of healthcare services	**(130,369)**	(107,291)	21.5%
Cost of pharma	**(105,472)**	–	–
Cost of insurance services	**(55,772)**	(49,372)	13.0%
Eliminations	**13,878**	7,431	86.8%
Gross profit	**146,018**	93,129	56.8%
Salaries and other employee benefits	**(39,750)**	(26,515)	49.9%
General and administrative expenses	**(27,853)**	(10,517)	164.8%
Impairment of receivables	**(2,332)**	(3,448)	-32.4%
Other operating income	**1,944**	3,490	-44.3%
EBITDA	**78,027**	56,139	39.0%
Depreciation and amortisation	**(19,577)**	(12,666)	54.6%
Net interest expense	**(13,736)**	(20,282)	-32.3%
Net gains/(losses) from foreign currencies	**(5,657)**	2,098	NMF
Net non-recurring income/(expense)	**1,118**	(1,682)	NMF
Profit before income tax expense	**40,175**	23,608	70.2%
Income tax benefit	**21,156**	9	NMF
of which: Deferred tax adjustments	**23,992**		
Profit for the period	**61,331**	23,617	159.7%
Attributable to:			
– shareholders of the Company	**50,203**	19,651	155.5%
– non-controlling interests	**11,128**	3,966	180.6%
of which: Deferred tax adjustments	**4,541**	–	

Revenue

We delivered record full-year 2016 revenue of GEL 426.4 million (up 73.4% y-o-y). This growth was driven by all business lines. The first-time consolidation of revenues from our pharma business ("GPC") acquired in May 2016 had the largest effect. The healthcare services business was the next biggest contributor to the revenue growth, with strong organic growth (16.3% in FY16) mainly as a result of: investments in new services to close the service gaps primarily in hospitals further strengthening our leading market position; and the roll out of the ambulatory clinics to tap a highly fragmented outpatient services segment (no single competitor has more than 1% market share by revenues). Growth of net insurance premiums earned contributed slightly to the Group revenue growth, while the increase in referrals from the medical insurance business to Group healthcare facilities resulted in an increase in the retention of medical insurance claims within the Group by 7.2% y-o-y, in 2016.

In the full-year 2016, we achieved a well-diversified revenue mix at GHG, tapping all three segments of the Georgian healthcare ecosystem. 55% of our revenues came from the healthcare services business, 31% came from the pharma business (consolidated only since May 2016) and the remaining 14% came from the medical insurance business.

Gross profit

In 2016, we continued our focus on extracting operating efficiencies and synergies in our healthcare and pharma businesses, achieving stronger gross profit margins as a result. Our medical insurance business continues to implement the initiatives to achieve targeted levels of loss ratio. The stronger gross profit in the healthcare services business is primarily a result of increase in both the scale of our business and the utilisation of our healthcare facilities, each of which drives more revenue, while fixed costs grow at a slower pace. We expect this trend to be supported next year by some of our healthcare facilities that we launched in 2016 and which are still in the ramp-up phase. On the other hand, some pressure on margins may result from the launch in 2017 of the two large hospitals in Tbilisi which we are currently renovating. Another factor favourably affecting gross profit in healthcare services is that we have started to realise the synergies in our medical disposables procurement as a result of entering into the pharma business. This process will be ongoing and the results of the cost savings are expected to be reflected in the coming year as well. As to gross profit in the pharma business itself, since the acquisition of GPC the pharma business, we have focused on implementing initiatives, such as renegotiating pricing with manufacturers and engaging in

more profitable sales initiatives and at the same time cancelling the initiatives which were not bringing additional business or which diluted margins. The acquisition of the Pharmadepot chain will allow us to continue these efforts in 2017.

EBITDA

We reported record EBITDA of GEL 78.0 million (up 39.0% y-o-y) for FY16. EBITDA margin for the healthcare services was 30.2%, compared to 27.4% in 2015 (4Q16 was 31.9%, compared to 29.8% in 4Q15). Healthcare services was the main contributor to this increase, with strong gross margin that resulted in strong positive operating leverage in the healthcare business at 17.5 percentage points. The addition of the pharma business from May 2016 brought GEL 5.7 million EBITDA to the Group in 2016. For a more detailed discussion of the main factors affecting EBITDA, see the discussion of the segments.

Profit

The Group's profit was GEL 61.3 million. The healthcare services business was the main driver of the FY16 Group's profit, and contributed GEL 64.5 million, up 195.1% y-o-y, followed by the pharma business, which contributed GEL 1.9 million to the Group's profit. The Group's profit was partially offset by the loss of GEL 4.9 million reported by the medical insurance businesses. Due to the changes in the corporate tax legislation in Georgia, the Group recognised one-off gains during the year (see the explanation in the second bullet point in *"Operating performance highlights and notable developments in 2016, GHG"*). Group profit, adjusted for the impact of deferred tax and adjusted for the foreign currency translation loss was GEL 39.6 million (up 117.8% y-o-y).

Depreciation and amortisation

The Group continued sizeable development projects throughout the year and actively invested in healthcare facilities, which is reflected in the y-o-y growth of the depreciation and amortisation expenses (up 54.6% y-o-y).

Financing costs

The Group reduced its borrowings in line with our strategy of deleveraging following the IPO. Additionally, the Group repaid a large part of the borrowings from local commercial banks and instead sourced longer-term and less expensive funding from Development Financial Institutions ("DFIs"). These efforts resulted in net interest expense decrease by 32.3% y-o-y.

Foreign currency exposure cost

The foreign currency exposure is a result of a Dollar short position, arising from foreign currency-denominated borrowings from DFIs and the trade accounts payable of the pharma business. The Group started hedging its major open currency positions through typical foreign currency forwards (swap) bought from local commercial banks. During 3Q16 and 4Q16, the Group hedged US$27.0 million and US$4.0 million of its short position. This helped to significantly reduce the open currency position, however, during fourth quarter 2016, the Group still had a short currency position of US$9.0 million due to the foreign currency denominated borrowings, which resulted in increased foreign currency losses as the Georgian Lari continued to devalue. By the end of December 2016, the Group's entire foreign currency position other than to foreign suppliers of the pharma business has been closed fully. The cost of the foreign currency hedging is included in net interest expense in the income statement.

Balance sheet

Our balance sheet increased substantially over the last 12 months, as a result of the recent acquisitions (mostly GPC), reaching GEL 912.6 million as at 31 December 2016. The growth of total assets by 20.3% y-o-y was largely driven by the 29.3% (GEL 130.3 million) increase in property and equipment reflecting investments in the renovation of hospitals, roll out of ambulatory clinics and the acquisition of the pharma business in 2016.

The high level of cash and bank deposits at the end of 2015 reflected the receipt of IPO proceeds, and during 2016, a large part of those proceeds were deployed for the capex projects as well as for the acquisition of GPC. The increase in accounts receivable is primarily due to the growth in net revenues of healthcare services by 26.2% y-o-y. The pharma business consolidation primarily affected inventories and goodwill. Out of the GEL 54.9 million inventory balance at the year-end, GEL 40.0 million was attributable to the pharma business. Borrowed funds have increased y-o-y as a result of obtaining new cheaper funding from DFIs, replacing part the local funding previously repaid through IPO proceeds. We have simultaneously introduced the practice of hedging the foreign currency risk associated with these borrowings from DFIs that are denominated in foreign currency. We describe the swap agreements with local commercial banks in *"Foreign currency exposure cost"* above. A currency swap asset of GEL 6.3 million as at 31 December 2016 is recognised on the balance sheet, included in other assets. It is accounted at fair value and its carrying amount decreased our net debt as far as the instrument is attached to these borrowings.

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	**31-Dec-16**	31-Dec-15	Change, y-o-y
Total assets, of which:	**912,563**	758,280	20.3%
Cash and bank deposits	**47,115**	157,398	-70.1%
Receivables from healthcare services	**81,927**	65,863	24.4%
Receivables from sale of pharmaceuticals	**5,105**	–	–
Insurance premiums receivable	**24,207**	20,663	17.2%
Property and equipment	**574,972**	444,718	29.3%
Goodwill and other intangible assets	**70,339**	25,787	172.8%
Inventory	**54,920**	11,056	396.7%
Prepayments	**30,518**	9,117	234.7%
Other assets	**23,460**	23,678	-0.9%
Total liabilities, of which:	**370,531**	283,299	30.8%
Borrowed funds	**223,581**	152,762	46.4%
Accounts payable	**64,367**	35,471	81.5%
Insurance contract liabilities	**26,787**	21,351	25.5%
Other liabilities	**55,796**	73,715	-24.3%
Total shareholders' equity attributable to:	**542,032**	474,981	14.1%
Shareholders of the Company	**485,888**	418,981	16.0%
Non-controlling interest	**56,144**	56,000	0.3%

Business review continued

Statement of cash flow, GHG consolidated

	FY16, Adjusted[1]	Adjustments	FY16, Actual	FY15, Actual	Change, y-o-y (FY16 adjusted to FY15 actual)
Cash flows from operating activities					
Healthcare services revenue received	**210,099**	**–**	**210,099**	167,043	26%
Cost of healthcare services paid	**(135,585)**	**633**	**(136,218)**	(98,750)	37%
Pharma revenue received	**118,671**	**–**	**118,671**	–	–
Cost of pharma paid	**(94,979)**	**4,616**	**(99,595)**	–	–
Net insurance premiums received	**59,963**	**–**	**59,963**	56,828	6%
Net insurance claims paid	**(38,042)**	**–**	**(38,042)**	(36,695)	4%
Salaries and other employee benefits paid	**(40,328)**	**–**	**(40,328)**	(25,827)	56%
General and administrative expenses paid	**(23,601)**	**2,461**	**(26,062)**	(12,301)	92%
Other	**(3,529)**	**–**	**(3,529)**	(3,998)	-12%
Net cash flows from operating activities before income tax	**52,669**	**7,710**	**44,959**	46,300	14%
Income tax paid	**(1,602)**	**1,000**	**(2,602)**	(932)	72%
Net cash flows from operating activities	**51,067**	**8,710**	**42,357**	45,368	13%
Cash flows used in investing activities					
Acquisition of subsidiaries, net of cash acquired	**(50,058)**	**–**	**(50,058)**	(48,085)	4%
Acquisition of additional interest in existing subsidiaries	**(2,472)**	**–**	**(2,472)**	(6,384)	-61%
Purchase of property and equipment	**(111,035)**	**–**	**(111,035)**	(69,607)	60%
Other investing activities	**(13,352)**	**–**	**(13,352)**	4,094	-426%
Net cash used in investing activities	**(176,917)**	**–**	**(176,917)**	(119,982)	47%
Cash flows from financing activities					
Proceeds from IPO	**–**	**–**	**–**	233,975	-100%
IPO-related transaction cost	**(2,520)**	**–**	**(2,520)**	(12,096)	-79%
Proceeds from debt securities issued	**–**	**–**	**–**	34,247	-100%
Redemption of debt securities issued	**(3,497)**	**–**	**(3,497)**	–	100%
Proceeds from borrowings	**133,332**	**–**	**133,332**	40,612	228%
Repayment of borrowings	**(91,551)**	**–**	**(91,551)**	(95,839)	-4%
Interest expense paid	**(19,292)**	**–**	**(19,292)**	(24,555)	-21%
Other financing activities	**(2,333)**	**–**	**(2,333)**	6,932	-134%
Net cash flows from financing activities	**14,139**	**–**	**14,139**	183,276	-92%
Effect of exchange rates changes on cash and cash equivalents	**(1,493)**	**–**	**(1,493)**	3,707	-140%
Net (decrease)/increase in cash and cash equivalents	**(113,204)**	**8,710**	**(121,914)**	112,369	-201%
Cash and cash equivalents excluding bank deposits, beginning	**145,153**	**–**	**145,153**	32,784	343%
Cash and cash equivalents excluding bank deposits, ending	**31,949**	**8,710**	**23,239**	145,153	-78%
Bank deposits, beginning	**12,245**	**–**	**12,245**	13,954	-12%
Bank deposits, ending	**23,876**	**–**	**23,876**	12,245	95%
Cash and Bank deposits, beginning	**157,398**	**–**	**157,398**	46,738	237%
Cash and Bank deposits, ending	**55,825**	**8,710**	**47,115**	157,398	-65%

1 Statement of Cash Flows adjusted for effect of accelerated payments of aged accounts payables and one off loss in medical insurance claims in 2016 as compared to 2015.

Cash flow

The revenue cash conversion ratio, on a consolidated basis improved, reaching 91.2% in FY16 compared to 89.6% in FY15. This translated into an EBITDA cash conversion ratio of 68% on a consolidated adjusted basis for the same period. Significant growth across all lines of the operating cash flow reflects the organic growth of the business (16.3% y-o-y organic growth of the healthcare services business for FY16) as well as material acquisitions completed since 30 June 2015. To provide a like-for-like comparison for FY16 cash flows, we have applied a few adjustments for non-recurring cash flow items: a) in 2016 we accelerated payments to our core suppliers for the healthcare services and pharma businesses, in order to obtain higher discounts on procured materials and supplies – the full-year effect of this acceleration is GEL 0.6 million and GEL 4.6 million for the healthcare and pharma businesses, respectively; b) we also accelerated payments of aged general and administrative expenses by GEL 2.5 million; and c) we provided temporary funding to HTMC for the one-off tax settlement of GEL 1 million, as a result of the tax audit conducted prior to its acquisition (the settled amount had been fully provisioned at the time of acquisition).

Net cash flows used in investing activities mostly comprise two acquisitions (HTMC, the cash payment of which was made in 2016 although it was acquired in 2015 and the pharma business) as well as capex (additions to property and equipment), which grew by 60.0% y-o-y, in line with the Group's original three-year business plan. **We invest in medical technology, on the back of renovated infrastructure, enhancing our service mix and introducing new services to cater for unfulfilled demand, as indicated by low incidence levels that lag far behind peer benchmarks.** We define development capex as additions to GHG's property, plant and equipment, excluding acquisitions. During 2016, we spent a total of GEL 111.0 million on capital expenditure. Of this, maintenance capex was GEL 9.4 million.

Net cash flows used in financing activities mostly reflect repayments of high interest rate borrowings by the end of 2015 and beginning of 2016 as well as cash proceeds from the cheaper borrowings attracted during 2016, which are also reflected in reduced interest charges.

Operating performance highlights and notable developments in 2016, GHG:

- In 2016, GHG entered in to the pharma market as a result of acquiring the third largest player in the pharma retail and wholesale market. In January 2017, GHG also completed the acquisition of second pharma company – ABC – and became the largest pharma player in Georgia, with 29% market share, of the GEL 1.3 billion market. The details of these acquisitions are described on pages 24 to 27 in this Annual Report.
- In March 2016, we bought out the remaining 33.3% minority shareholding of our largest paediatric hospital, Iashvili Paediatric Tertiary Referral Hospital. We had held a 66.7% controlling interest in Iashvili since February 2014. In exchange for the 33.3% minority shareholding at Iashvili, we paid cash of US$1.0 million and transferred all of our assets in Tbilisi Maternity Hospital "New Life" ("New Life") to the seller of the minority stake. We had held a 100% stake in New Life since February 2014. Operating 266 beds, Iashvili recorded GEL 25.2 million in gross revenue in 2015, of which GEL 8.4 million was attributable to the minority shareholder bought out as a result of this transaction. Operating 82 beds, New Life recorded GEL 2.4 million in gross revenue in 2015.
- In May 2016, the Parliament of Georgia approved amendments to the corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from financial institutions, including insurance businesses (the changes are applicable to financial institutions, including insurance businesses, from 1 January 2019). The changed model implies zero corporate tax rate on retained earnings and 15% tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status (under the previous regime, however, the healthcare sector in particular was permitted to deduct re-investments from the taxable profit and this way reducing the effective rate). The change had an immediate impact on deferred tax asset and deferred tax liability balances ("deferred taxes") attributable to previously recognised temporary differences, arising from prior periods. Under IFRS requirements, the new regime is considered to be substantively enacted in 2016, with its impact fully assessed in 2016. The Group has measured its deferred tax assets and liabilities as at 30 June 2016. The Group estimated the portion of deferred tax assets or liabilities that it expected to utilise by 1 January 2017 for its non-financial businesses (healthcare services and pharma businesses) and the portion of the deferred tax assets or liabilities it expects to utilise by 1 January 2019 for its financial businesses (medical insurance business). Based on such assessment, the Group has fully written off the unutilised portion of deferred tax assets and liabilities. The deferred tax liabilities that were reversed significantly exceeded the deferred tax assets written off. The net amount ("Deferred tax adjustments") was recognised as an income tax benefit for the Group and amounted to GEL 24.0 million in FY16 – a positive effect of GEL 29.3 million was recorded in the first half of 2016 was partially offset by a negative effect of GEL 5.3 million recorded in 4Q16. Both effects are non-recurring and one-off by nature and are fully utilised in 2016. Based on IFRS requirements, the negative impact recorded in 4Q16 represents a write off of the deferred tax asset that was originated in 4Q16 but could not be utilised post 31 December 2016. As per International Financial Reporting Standards ("IFRS"), this is the last timing difference that GHG had on its balance sheet prior to moving to the new tax legislation, effective 1 January 2017.
- We have completed the implementation of Exact, a new enterprise resource planning system ("ERP") sourced from a Dutch supplier. It fully covers all financial functions (integrated internet banking, GL, receivables, payables, fixed assets, intangibles, shareholder's equity, etc.) as well as all key operating functions (requesting, ordering, procurement and purchasing, warehouse management, sale and resale, cost accounting, stock item management, rents, depreciations, etc.). The ERP system enhances our capabilities to identify and extract further efficiencies in our operations. As a result, we run one ERP platform, Group-wide, except the pharma business.
- We have also completed the implementation of Vabaco, a software package that includes a complete billing system, fully integrated human resource management system and fully integrated payroll module for the healthcare services business. Vabaco has been fully integrated with Exact in real time. With this approach our Group currently runs fully integrated ERP, billing, HRMS and payroll systems. Vabaco is fully integrated with all external payment channels. It covers Universal Healthcare Programme services as well as private services for the insured individuals and out-of-pocket coverage. It is running successfully in all of our healthcare facilities except three, where implementation is ongoing. As a result of implementing Vabaco, the entire healthcare services business now runs on one unified platform with substantially increased functionality, capacity and speed.

Business review continued

Discussion of segment results

The segment results discussion is presented for healthcare services business, pharma business and medical insurance business.

Discussion of healthcare services business results

Our healthcare services business consists of hospitals and ambulatory clinics and provides the most comprehensive range of inpatient and outpatient services in Georgia. We target the mass market segment through our vertically integrated network of 35 hospitals and ten ambulatory clusters (with 41 ambulatory clinics), as at 31 December 2016.

Healthcare services business revenue

Our healthcare services business recorded strong full-year 2016 revenue of GEL 246.1 million (up 26.2%). The business continued its double-digit organic growth at 16.3% FY16. In 4Q 2016 revenue was GEL 67.6 million (up 21.9% y-o-y and up 14.0% q-o-q).

Revenue by types of healthcare facilities

GEL thousands, unless otherwise noted	FY16	FY15	Change, y-o-y
Healthcare services revenue, net	**243,453**	191,424	27.2%
Referral hospitals	**209,563**	168,527	24.4%
Community hospitals	**22,273**	17,623	26.4%
Ambulatory clinics	**11,616**	5,274	120.3%

Net healthcare services revenue grew by 27.2% y-o-y in 2016. While all three types of healthcare facilities contributed to the growth, the largest driver was referral hospitals. Revenues from the ambulatory clinics more than doubled during 2016, which was a result of the roll out of the outpatient facilities network, in line with our strategy.

The increase in revenue from referral hospitals was driven by strong organic growth, which was in turn driven by strong demand for our current services at our existing facilities, as well as renovation of our facilities and the launch of new services. Our renovation projects and our new services are described below under "Operating performance highlights and notable developments in 2016, healthcare services business".

We expect a significant portion of the future growth of our healthcare revenue to come from referral hospitals, in line with our strategy to further invest in facilities and services and improve the quality of care throughout the country. In 2016, referral hospitals contributed 86% to total revenue from healthcare services.

Community hospitals also posted a strong growth in revenue, which was also driven organically. Community hospitals play a feeder role for the referral hospitals, so we expect more moderate future growth of their revenue. In 2016, community hospitals contributed 9% to total revenue from healthcare services.

Ambulatory clinics revenue has grown at triple-digit rates, driven by our rapid launch of ambulatory clusters, in line with our strategy to enter this highly fragmented segment of the healthcare ecosystem in Georgia and become a large-scale ambulatory player in Georgia. In 2016, we opened six ambulatory clusters, in line with our initial plan. These launches brought the number of ambulatory clusters to ten, consisting of 13 district ambulatory clinics and 28 express ambulatory clinics. We expect growth in revenue from ambulatory clinics to accelerate over the next few years, in line with our strategy to increase the number of ambulatory clusters and clinics from today's level to more than 15 and 40, respectively by the end of 2018. In 2016, ambulatory clinics contributed 5% to total revenue from healthcare services, compared to 3% in the previous year.

Revenue by sources of payment

GEL thousands, unless otherwise noted	FY16	FY15	Change, y-o-y
Healthcare services revenue, net	**243,453**	191,424	27.2%
Government-funded healthcare programmes	**176,668**	145,732	21.2%
Out-of-pocket payments by patients	**48,991**	34,802	40.8%
Private medical insurance companies, of which	**17,794**	10,890	63.4%
GHG medical insurance	**10,453**	7,431	40.7%

Income statement, healthcare services business

GEL thousands; unless otherwise noted	FY16	FY15	Change, y-o-y
Healthcare service revenue, gross	**246,139**	195,032	26.2%
Corrections and rebates	**(2,686)**	(3,608)	-25.6%
Healthcare services revenue, net	**243,453**	191,424	27.2%
Costs of healthcare services	**(130,369)**	(107,291)	21.5%
Gross profit	**113,084**	84,133	34.4%
Salaries and other employee benefits	**(24,048)**	(23,075)	4.2%
General and administrative expenses	**(13,920)**	(7,860)	77.1%
Impairment of receivables	**(1,881)**	(3,140)	-40.1%
Other operating income	**1,085**	3,468	-68.7%
EBITDA	**74,320**	53,526	38.8%
EBITDA margin	**30.2%**	27.4%	
Depreciation and amortisation	**(18,287)**	(11,973)	52.7%
Net interest income (expense)	**(12,198)**	(20,352)	-40.1%
Net gains/(losses) from foreign currencies	**(4,270)**	1,312	NMF
Net non-recurring income/(expense)	**2,883**	(960)	NMF
Profit before income tax expense	**42,448**	21,553	96.9%
Income tax benefit/(expense)	**22,054**	307	NMF
of which: Deferred tax adjustments	**24,990**	–	
Profit for the period	**64,502**	21,860	195.1%
Attributable to:			
– shareholders of the Company	**53,374**	17,894	198.3%
– non-controlling interests	**11,128**	3,966	180.6%
of which: Deferred tax adjustments	**4,541**	–	

Our 2016 healthcare services revenue growth came from all three sources set out above, with revenue from out-of-pocket and private medical insurance outpacing the growth of revenue from Government-funded healthcare programmes.

Universal Healthcare Programme continued to be the main contributor to our healthcare services revenue growth. The revenue increased by GEL 30.9 million or 21.2%. Since the full rollout of UHC in mid-2014, Government expenditure on healthcare sector has grown considerably and is expected to be GEL 996.0 million in 2016 compared to GEL 487.9 million in 2013, 104.1% growth over the period.

Growth in out-of-pocket payments is driven by two main factors: The first is growth in healthcare spending which also drives co-payments which are funded out-of-pocket. UHC imposes coverage limits on medical treatments, establishes co-payments and has certain exclusions from coverage as well (i.e. charges that are not covered by UHC). Any charges in excess of the limits are covered by patients as co-payments on an out-of-pocket basis. With the increasing Government financing of healthcare services and rollout of outpatient facilities, the number of patients in our hospitals is growing, resulting in a corresponding increase in revenue from out-of-pocket payments as well.

The second growth driver is the enhanced footprint of our ambulatory clinics, revenue from which is primarily out-of-pocket funded, as the Government provides minimal coverage for outpatient services. We expect the share of out-of-pocket payments and revenue from private medical insurance companies to increase over the next few years. Our existing ambulatory clinics and the further roll out of our ambulatory clinic expansion strategy will capture patients seeking elective outpatient services, as the largest proportion of elective outpatient services are still financed by the patients themselves or through private insurance policies. In a system where patients have free choice of providers we are pleased to see so many choosing the high-quality services in our ambulatory network. Our investments in new service developments are also expected to support growth in revenue from out-of-pocket payments as the services that we develop include those not financed by the State. Essentially, it is our priority to diversify the mix of payment sources contributing to our revenue, with an aim to decrease dependence on the revenue from the State, primarily UHC. Both the roll out of outpatient services and introduction of new services in hospitals not covered by UHC (e.g. IVF introduced earlier this year) deliver this goal.

The y-o-y growth of revenue from private medical insurance companies also continues to be supported by the rollout of the ambulatory clinics, which attract patients with private medical insurance. Our ambulatory clinics are brand new, modern and provide a diverse range of services in one location, unlike the majority of the competition, and therefore is an attractive proposition for the insured customers. Our medical insurance clients have also increased the utilisation levels at our ambulatory clinics, which is reflected in the increased revenue from our medical insurance to our healthcare services business (up 176.7% and 1.1% on y-o-y and q-o-q basis in 4Q16 and up 40.7% y-o-y in FY16). Consequently, we retain significantly more outpatient claims from our medical insurance business within the Group. The retention stood at 38.4% in FY16 (compared to 33.7% in FY15) and was 43.4% in 4Q16.

The main cost drivers of our healthcare services business are the cost of salaries and other employee benefits and the cost of materials and supplies. The major drivers responsible for the increased costs in 2016 were the expansion of the hospital business, further to the acquisition of HTMC, filling the service gaps and the roll out of ambulatory clinics.

Our healthcare services margins are improving as a result of the increasing utilisation and scale of our business, as well as our continued focus on efficiency and the ongoing integration of healthcare facilities acquired during 2015. The share of the cost of salaries and other employee benefits in the total cost of services decreased from 63.4% in 2015 to 61.7% in 2016. The direct salary rate in the healthcare services business (expense on direct salaries as a percentage of gross revenue) declined from 34.9% in 2015 to 32.7% in 2016. The direct salary rate improvement is a result of scale efficiency and the fact that part of our direct salaries are fixed. We expect these two factors should continue to result in revenue growth that outpaces growth in direct salaries.

The cost of materials and supplies was well controlled, reflecting the benefits of consolidated purchasing power following the acquisition of the pharma business, and grew almost in line with the revenue growth. However the increasing materials rate during 2016 over 2015 year, was a result of the reset of certain supplier prices on the back of Lari depreciation.

The increase in cost of utilities is mainly due to the increase in utilities tariffs in the country effective from 4Q15, as well as to the expansion of the business.

As a result of the above, gross margin (gross profit divided by gross revenue) increased by 280 bps y-o-y to 45.9% for 2016. Gross profit reached GEL 113.1 million for 2016, up 34.4% y-o-y.

Gross profit, healthcare services business

GEL thousands, unless otherwise noted	**FY16**	FY15	Change y-o-y
Cost of healthcare services	**(130,369)**	(107,291)	21.5%
Cost of salaries and other employee benefits	**(80,397)**	(68,014)	18.2%
Cost of materials and supplies	**(38,059)**	(29,097)	30.8%
Cost of medical service providers	**(1,842)**	(2,423)	-24.0%
Cost of utilities and other	**(10,071)**	(7,757)	29.8%
Gross profit	**113,084**	84,133	34.4%
Gross margin	**45.9%**	43.1%	
Cost of healthcare services as % of revenue			
Direct salary rate	**32.7%**	34.9%	
Materials rate	**15.5%**	14.9%	

Business review continued

EBITDA, healthcare services business

GEL thousands, unless otherwise noted	FY16	FY15	Change, y-o-y
Operating expenses	**(38,764)**	(30,606)	26.7%
Salaries and other employee benefits	**(24,048)**	(23,075)	4.2%
General and administrative expenses	**(13,920)**	(7,860)	77.1%
Impairment of receivables	**(1,881)**	(3,140)	-40.1%
Other operating income	**1,085**	3,468	-68.7%
EBITDA	**74,320**	53,526	38.8%
EBITDA margin	**30.2%**	27.4%	

The healthcare services business achieved a strong positive operating leverage of 17.5% for the full-year 2016. This is a result of the increasing economies of scale as we continue the consolidation exercise Group-wide, as well as the disciplined cost management process. Salaries and other employee benefits and general and administrative expenses are the key drivers of our total operating expenses in healthcare services business. The FY16 y-o-y cost growth is a result of an overall expansion of the healthcare services business.

Administrative salaries and other employee benefits in FY16 were well contained and were up only 4.2% y-o-y. The y-o-y increase in general and administrative expenses for FY16 (up 77.1%) was primarily driven by the following factors: 1) increased governance-related expenses as a result of the IPO at the end of 2015; 2) rental costs of the newly launched ambulatory clinics, with all rental payments denominated in Dollar, which is a common practice in Georgia; and 3) the recently increased marketing activity alongside the roll out of our ambulatory clinics, compared to a low base of marketing activity in the previous year.

The full-year 2016 impairment charge was GEL 1.9 million, down 40.1% from a year ago, as a result of the normalisation of the quality of the regular retail receivables.

As a result, we reported record high full-year EBITDA of GEL 74.3 million (up 38.8% y-o-y). Our continued focus on efficiency and the integration of newly acquired facilities resulted in the robust healthcare services business EBITDA margin of 30.2% in FY16 (31.9% in 4Q16), which exceed the target of c.30% we set to meet by 2018.

Profit for the period, healthcare services business

GEL thousands, unless otherwise noted	FY16	FY15	Change, y-o-y
Depreciation and amortisation	**(18,287)**	(11,973)	52.7%
Net interest income (expense)	**(12,198)**	(20,352)	-40.1%
Net gains/(losses) from foreign currencies	**(4,270)**	1,312	NMF
Net non-recurring income/ (expense)	**2,883**	(960)	NMF
Profit before income tax expense	**42,448**	21,553	96.9%
Income tax benefit/(expense)	**22,054**	307	NMF
of which: Deferred tax adjustments	**24,990**	–	
Profit for the period	**64,502**	21,860	195.1%
Attributable to:			
– shareholders of the Company	**53,374**	17,894	198.3%
– non-controlling interests	**11,128**	3,966	180.6%
of which: Deferred tax adjustments	**4,541**	–	

2 From calculation emergency beds are excluded.
3 This calculation excludes data for the emergency department.

The increase in depreciation expense in full-year is a result of the increased asset base from our expansion and respective capex pipeline execution. The decline in net interest expense reflects the reduction in our borrowing levels following the application of the IPO proceeds and replacement of the more expensive funding by a cheaper one. Foreign currency loss of GEL 4.3 million for the FY16 was a result of depreciation of the local currency against Dollar. The loss was significantly mitigated by the currency forward (swaps) contracts with a total notional value of US$40 million that the Group entered into during 2016 (out of which US$9 million was formed by the end of December 2016), following the depreciation of the Lari. Consequently, we reported a profit GEL 64.5 million. Normalised full-year 2016 profit (adjusted for the impact of deferred tax and the foreign currency translation loss) was GEL 41.6 million, up 145.2% y-o-y.

Discussion of pharma business results

We entered the pharma business through the acquisition of GPC in May 2016, the third largest pharma retailer and wholesaler in Georgia, and our results of operations include GPC results since May 2016. Our pharma business ("GPC") consists of retail and wholesale pharma distribution operations through 118 pharmacies mainly located in urban areas throughout Georgia, supported by two warehouses. 25 of these pharmacies also have express ambulatory clinics. We have approximately one million retail customer interactions per month in our pharmacies, with c.0.5 million loyalty card members. The number of our pharmacies located at our hospitals has now reached 20, up from four in May 2016.

In November 2016, we announced a second pharma acquisition, that of ABC, the fourth largest pharma retailer and wholesaler in Georgia. However, because we completed the ABC transaction in January 2017 the 2016 results below do not include the results of ABC's operations – we started consolidating ABC from 1 January 2017.

Since the GPC acquisition was in May 2016, y-o-y comparisons are not yet meaningful. For the period May-December, our pharma business recorded total revenue of GEL 133.0 million, with 20.7% gross margin and 4.3% EBITDA margin. The pharma business recorded revenue of GEL 56.6 million for 4Q16, maintained gross margin of 21.4% during both 3Q16 and 4Q16, and improved EBITDA margin to 6.0% in 4Q16 from 3.9% in 2Q16.

Income statement, pharma business

GEL thousands; unless otherwise noted	YTD 2016
Pharma revenue	**133,002**
Costs of pharma	**(105,472)**
Gross profit	**27,530**
Salaries and other employee benefits	**(11,357)**
General and administrative expenses	**(11,277)**
Other operating income	**840**
EBITDA	**5,736**
EBITDA margin	**4.3%**
Depreciation and amortisation	**(447)**
Net interest income (expense)	**(1,602)**
Net gains/(losses) from foreign currencies	**(1,277)**
Net non-recurring income/(expense)	**(88)**
Profit before income tax expense	**2,322**
Income tax benefit/(expense)	**(398)**
Deferred tax adjustments	**(200)**
Profit for the period	**1,924**
Attributable to:	
– shareholders of the Company	**1,924**
– non-controlling interests	**–**

During the second half of the year, GHG set a new incentive plan for the management of the pharma business and it actively engaged in marketing campaigns. The new incentive plan for the management is built around sales and efficiency KPIs. Most of the new marketing campaign has focused on sales initiatives. This resulted in revenue from our pharma business in 4Q16, which was up by 23.8% from third quarter. The revenue mix by sales channels was split between retail pharmacies and wholesale, at GEL 96.1 million (72% of total) and at GEL 36.9 million (28% of total), respectively. The share of para-pharmacies in retail revenue was c.33%.

Our pharma business reported a gross margin of 20.7%, in spite of the fact that in May-June period, after GHG announced its acquisition of the pharma business, gross margin was affected by the pricing pressure from the competition, as they started sales discounts. Gross margin stood at 21.4% in 4Q16 when in May-June period it stood at 19.6%.

Overall, we improved performance and were disciplined on cost management, and as a result the pharma business delivered positive operating leverage of 10.2% in 4Q16 over 3Q16.

Since its acquisition in May 2016, we have integrated the pharma business into the Group. We have and are continuing to extract synergies in support functions and we are on track to deliver the initially expected cost savings and revenue enhancement. We have rolled out a number of initiatives, at the time of the acquisition, which have had a positive effect on the pharma business, and were partially reflected in 3Q16 and 4Q16 results. GEL 5.7 million EBITDA (4.3% EBITDA margin) for the full consolidated period of pharma business reflects the achievements and improvements of its performance in 3Q16 and 4Q16 described above, compared to the period of May-June 2016. We expect that the effects of our optimisation and integration efforts will continue to be reflected in the full-year results of 2017.

Discussion of medical insurance business results

Our medical insurance business consists of private medical insurance operations in Georgia, providing medical insurance products to corporate and retail clients. It is the largest provider of medical insurance in Georgia, with a 35.3% market share based on net insurance premiums earned and had approximately 211,000 insurance customers as at 31 December 2016. Our medical insurance business plays a crucial role in our business model, as it is an important feeder for our healthcare services business, particularly for the ambulatory clinics, and we believe that role will grow in the future as we roll-out our ambulatory growth strategy.

Medical insurance business revenue

Our medical insurance business contributed GEL 61.5 million (up 5.0% y-o-y), to total consolidated GHG revenue.

Revenue by types of clients

GEL thousands, unless otherwise noted	FY16	FY15	Change, y-o-y
Net insurance premiums earned	**61,494**	58,552	5.0%
Medical insurance products sold to retail clients	**8,796**	6,693	31.4%
Medical insurance products sold to corporate clients	**52,698**	51,858	1.6%

The y-o-y growth in medical insurance business revenue was driven primarily by sales to retail clients. Sales to retail clients posted 31.4% y-o-y growth in FY16, while sales to corporate clients grew only modestly. The medical insurance business has been focused on diversification of its revenue by sources, launching insurance products particularly targeted at retail customers and enhancing retail sales efforts. As a result, revenue from retail sales reached 14% of total revenues in 2016, compared to 11% last year. We also increased our corporate client base and the number of insured individuals remained above 200,000 during 2016.

Our medical insurance costs have been adversely affected in 2016 by a loss-making contract with the Ministry of Defence ("the MOD contract"). The MOD contract has now expired and with the improved loss ratio in corporate sales, we expect increased efficiency in 2017.

Income statement, medical insurance business

GEL thousands; unless otherwise noted	FY16	FY15	Change, y-o-y
Net insurance premiums earned	**61,494**	58,552	5.0%
Cost of insurance services	**(55,772)**	(49,372)	13.0%
Gross profit	**5,722**	9,180	-37.7%
Salaries and other employee benefits	**(4,663)**	(3,642)	28.0%
General and administrative expenses	**(2,656)**	(2,660)	-0.2%
Impairment of receivables	**(451)**	(308)	46.2%
Other operating income	**19**	43	-55.8%
EBITDA	**(2,029)**	2,613	-177.6%
EBITDA margin	**-3.3%**	4.5%	
Depreciation and amortisation	**(843)**	(692)	21.7%
Net interest income (expense)	**232**	71	227.8%
Net gains/(losses) from foreign currencies	**(110)**	785	-114.0%
Net non-recurring income/(expense)	**(1,677)**	(722)	NMF
Profit before income tax expense	**(4,427)**	2,055	-315.4%
Income tax benefit/(expense)	**(500)**	(298)	67.7%
Deferred tax adjustments	**(798)**	–	–
(Loss)/Profit for the period	**(4,927)**	1,757	-380.4%
Attributable to:			
– shareholders of the Company	**(4,927)**	1,757	-380.4%
– non-controlling interests	**–**	–	

Business review continued

Gross profit, medical insurance business

GEL thousands, unless otherwise noted	FY16	FY15	Change, y-o-y
Cost of insurance services	**(55,772)**	(49,372)	13.0%
Net insurance claims incurred:	**(51,701)**	(46,076)	12.2%
Medical insurance products sold to retail clients	**(5,773)**	(3,700)	56.0%
Medical insurance products sold to corporate clients	**(45,928)**	(42,376)	8.4%
Agents, brokers and employee commissions	**(4,071)**	(3,296)	23.5%
Gross profit	**5,722**	9,180	-37.7%
Loss ratio	**84.1%**	78.7%	

In spite of the MOD contract losses, our medical insurance business continued to focus on efficiency improvements in 2016, which was reflected in the improved loss ratio (net insurance claims divided by net insurance revenue) in 3Q16. Overall, however, the medical insurance loss ratio increased from 78.7% in FY15 to 84.1% in FY16, mostly as a result of the 12.2% y-o-y increase in net insurance claims incurred, mostly from the MOD contract.

The MOD contract was historically loss-making with a very low tariff base. The contract became even more unfavourable on 1 May, 2016, when MOD beneficiaries were excluded from UHC coverage by the State. In addition, because the contract had a very limited possibility for Group-wide synergies – coverage did not include medicines and for outpatient services the insured used non-GHG clinics predominantly – the contract was allowed to expire in January 2017. In the absence of this contract going forward, we expect significant improvement of our loss ratio in 2017.

To reduce the risks associated with individual contracts (such as the MOD contract), diversifying our insurance portfolio is one of the key targets for our medical insurance business. By the end of 2016, we managed to reduce the concentration of our top five clients to 27.1%, down from 42.6% a year ago, measured by insurance revenue.

We also improved the level of medical insurance claims retained within the Group. In 2016, our medical insurance claims expense was GEL 51.7 million, of which GEL 22.7 million (43.9% of total) was inpatient, GEL 19.2 million (37.1% of total) was outpatient and GEL 9.8 million (19.0% of total) accounted for drugs. In 2016, GEL 12.1 million, or 23.3% of our total medical insurance claims were retained within the Group, of which GEL 10.4 million and GEL 1.6 million was retained in the healthcare services and pharma businesses, respectively. The feeder role of our medical insurance business is particularly important for our ambulatory services. In 2016, GEL 7.2 million, or 37.5% of our medical insurance claims on ambulatory clinics were retained within the Group, which represents an increase of 4.7 percentage points from 33.7% since FY15. With our recently launched ambulatory clinics and the ambulatory expansion strategy, the retention rate should improve further in the future, on a larger base, providing a significant revenue boost for our healthcare services business. In addition, following the expansion of our healthcare services business in referral hospitals in Tbilisi, where our medical insurance business has the highest concentration of its insured clients, more of our medical insurance customers will be utilising more of our hospitals.

Our facilities are increasingly favoured by these customers over competitor facilities due to the better quality of service, access to a one-stop-shop style ambulatory clinics and ease of claim reimbursement procedures.

Gross profit recorded FY2016 was GEL 5.7 million, as a result of the increased revenues.

EBITDA, medical insurance business

GEL thousands, unless otherwise noted	FY16	FY15	Change, y-o-y
Operating expenses	**(7,751)**	(6,567)	18.0%
Salaries and other employee benefits	**(4,663)**	(3,642)	28.0%
General and administrative expenses	**(2,656)**	(2,660)	-0.2%
Impairment of receivables	**(451)**	(308)	46.2%
Other operating income	**19**	43	-55.8%
EBITDA	**(2,029)**	2,613	NMF
Expense ratio	**20.6%**	18.0%	
Combined ratio	**104.7%**	96.7%	

The Group continues to decrease its general and administrative expenses in medical insurance, as a result of the efficiency-focus under a new leadership. The full annualised impact of this efficiency exercise will be reflected in 2017.

Our medical insurance business had made good progress on stabilising its earnings in the third quarter, when it recorded a positive EBITDA. However, our medical insurance business recorded GEL 2.0 million negative EBITDA. With the expiration of the MOD contract in January 2017, we expect further significant improvement of the medical insurance business EBITDA in 2017.

Directors' Governance Statement

Irakli Gilauri
Chairman

David Morrison
Senior Independent Non-Executive Director

Chairman's Letter

Dear Shareholders,

On behalf of the Board, we are pleased to present the Governance Report for Georgia Healthcare Group PLC.

Our Board recognises the importance of, and is committed to, maintaining the highest standards of corporate governance. We report against the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council ("FRC") and we have adhered to high standards of compliance with the Code. We have been complying with the obligations applicable under the UK Listing Rules and Disclosure Guidance and Transparency Rules as a subsidiary of a parent company that has been listed since November 2006, when Bank of Georgia Holdings PLC (now named BGEO Group PLC) became the first Georgian company to list global depositary receipts on the London Stock Exchange. All Directors are fully aware of their duties and responsibilities under the UK Corporate Governance Code, Listing Rules and the Disclosure and Transparency Rules.

2016 has been the first full year as premium listed company and we have been building on the robust structure we had established prior to listing. Among the key corporate governance actions we have taken this year, we would like to highlight the following:

- We appointed an independent firm to conduct a formal evaluation of each Director's skills and contribution and that of the Board as a whole and its Committees. We were pleased with the results of the evaluation and are confident that the Board has the right balance of skills, experience and diversity of personality and backgrounds to continue to encourage open, transparent debate and change.
- We have reviewed the strategic direction of the Group, including the increased ambulatory clusters, and the new services offered by the Group and considered the changing nature of the business and the impact for the risk framework.
- We have overseen the Group entering a new segment and engaged with the new management of the pharmaceuticals business to ensure alignment of the strategy for the Group.
- The Board has ensured a sound system of control by maintaining an oversight of, and engaging at Board level and through its Audit Committee and Clinical Quality and Safety Committee with, the Internal Audit function and the Clinical Audit Process Unit to ensure that the coverage of its activities reflects the rapidly evolving business.
- We have received reports and discussed with management the improved controls and reporting in our hospitals and the harmonised health and safety procedures being put into place.
- We have overseen the reduction of exposure to foreign currencies in a difficult year for the Lari and approved the hedging and new funding arrangements put in place.
- We hosted an investor day in Tbilisi, which provided investors and analysts with the opportunity to receive an update from members of the Board and executive management on strategy, with almost 50 analysts and investors attending. Directors and management also met with shareholders in the United Kingdom, Europe, the United States and South Africa.

Our principles extend beyond the boardroom and are continually implemented in the successful delivery of the Group's strategic priorities.

Irakli Gilauri
Chairman
13 April 2017

David Morrison
Senior Independent Non-Executive Director
13 April 2017

Compliance statement

Throughout the year ended 31 December 2016 we applied the main Principles and complied with the Provisions of the 2014 UK Corporate Governance Code, save for section A.3.1 which recommends that the Chairman on appointment should be independent. Irakli Gilauri is the Company's Chairman and at the time of appointment to this role also served as Chief Executive Officer of the Company's principal shareholder, BGEO Group PLC. As such, the Board does not consider Mr Gilauri to be independent. Nevertheless, the Board believes that it is in the Company's best interests to take advantage of Mr Gilauri's capabilities and experience in leading the Board.

The Code and associated guidance is published by the Financial Reporting Council and is available at www.frc.org.uk.

Set out on our website at http://ghg.com.ge/page/id/134/corporate-governance-framework is the Board's assessment of its application of the Main Principles of the Code, as required by LR 9.8.6.

Directors' Governance Statement continued

Our governance structure

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 practise corporate governance. See more about our responsibilities on page 116 of this Annual Report.

The Board is comprised of eight 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. A description of these roles can be found on our website, at http://ghg.com.ge/uploads/pages/roles-and-responsibilities-88.pdf.

Audit Committee

Assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other financial risks, compliance, IT and IS (including cyber-security) and works closely with the Clinical Quality and Safety Committee in connection with assessing the effectiveness of the risk management and internal control framework.

Committee membership:
David Morrison (Chairman)
Tim Elsigood
Jacques Richier
Allan Hirst (stepped down as of 17 December 2016)
Paul Goldfinch (appointed as of 1 January 2017)

Clinical Quality and Safety Committee

Assists the Board in fulfilling in its responsibilities in relation to the oversight of the Group's non-financial risks and their associated processes, policies and control including monitoring the Group's clinical quality, internal control and assurance frameworks. In the healthcare services business, the Committee assists the Board in promoting a culture of high-quality and safe patient care and experience. In conjunction with the Audit Committee, assesses the robustness and effectiveness of the risk management and internal control framework.

Committee membership:
Mike Anderson (Chairman)
Tim Elsigood
Ingeborg Oie
David Morrison (stepped down as of 15 February 2017)
Neil Janin (appointed as of 15 February 2017)

Nomination Committee

Assists the Board to ensure that the Board continues to have the right balance of skills, experience, independence and Group knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance, the strategic direction of the Group and the diversity aspirations of the Board. It is also responsible for both Director and executive management succession planning.

Committee membership:
Neil Janin (Chairman)
Irakli Gilauri
David Morrison
Mike Anderson
Jacques Richier

Remuneration Committee

Reviews and recommends to the Board the executive Remuneration Policy to ensure that remuneration is designed to promote the long-term success of GHG and to see that management is appropriately rewarded for their contribution to the Group's performance in the context of wider market conditions and shareholder views. It determines the remuneration packages of the Executive Directors, Chairman and executive management along with their terms of employment and assesses the performance of executive management against key performance indicators. It is also responsible for designing and overseeing the administration of Group employee share schemes.

Committee membership:
Neil Janin (Chairman)
Irakli Gilauri
Tim Elsigood
Ingeborg Oie

The role of the Board

Our principal duty, collectively, is to promote the long-term success of the Group by directing management in creating and delivering sustainable shareholder value. We do this by setting the Group's strategy and overseeing its implementation by management and are accountable to shareholders for the financial performance of the Group.

We believe that the success of the Group's implementation of strategy requires the alignment of strategy with the Group's internal governance framework. We view a strong risk management and internal control framework as essential to governance and it allows us to pursue our strategy in a way that risk appetite can be set and risks robustly identified, assessed, managed and reported effectively. You can read more about our risk management on pages 64 to 67.

By setting the tone at the top, establishing the core values of the Group and demonstrating our leadership, management are able to implement key policies and procedures we have created in a manner that clearly sets an expectation that every employee act ethically and transparently in all of his or her dealings. This in turn, fosters an environment where business and compliance are interlinked.

We also monitor management's execution of strategy and financial performance. While our ultimate focus is long-term growth, the Group also needs to deliver on short-term objectives and we seek to ensure that management strikes the right balance between the two.

We are mindful of our wider obligations and consider the impact our decisions will have on the Group's various stakeholders, such as our employees, our shareholders, our customers and patients, the environment and our community as a whole. You can read more about our sustainability initiatives in the Resources and Responsibilities section on pages 54 to 63.

In order to ensure that we meet our responsibilities, specific key decisions have been reserved for approval by the Board. A full formal schedule of matters specifically reserved for the Board can be found on our website, at http://ghg.com.ge/uploads/pages/schedule-of-matters-reserved-for-the-board-81.pdf.

Outside these matters, the Board delegates authority for the day-to-day management of the business to the CEO. The CEO delegates aspects of his own authority, as permitted under the corporate governance framework, to the Management Board.

Operation of the Board

We schedule in person Board meetings at least four times a year in Georgia and London, for a period of one to two days each time. We also hold meetings at our London offices, with Directors either attending in person or via teleconference. Matters which require decisions outside the scheduled meetings are dealt with through additional ad hoc meetings and conference calls. In addition, in 2016, the Board attended our annual investor day. In total, we met formally as a Board ten times during the year. The Board also passed written resolutions on five separate occasions.

At each regularly scheduled meeting, we receive reports from the Chairman, the CEO and the CFO. The CEO and the Deputy CEOs regularly update the Board on the performance, strategic developments and initiatives in their respective segment throughout the year. The CFO updates the Board on the financial position. The Director of the Legal Department and the Group Head of Investor Relations also regularly present to the full Board. The Board also receives updates from Group operating functions on internal control and risk management, compliance, internal audit, human resources and corporate responsibility matters.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle, although this is flexible to enable pressing matters, when they arise, to be dealt with in a timely manner.

The Chairman and CEO seek input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any particular matters raised by Non-Executive Directors are on the agenda to be discussed at the meeting. In addition, the Chairman meets with the CEO after each meeting to agree the actions to be followed up and to discuss how effective the meeting was. The Senior Independent Director supports the Chairman in his role and acts as an intermediary for other Non-Executive Directors when necessary and keeps in touch with the Non-Executive Directors outside of the Board and Committee meetings.

The Chairman and CEO also maintain frequent contact (in person or otherwise) with each other and the other Board members throughout the year outside of the formal meetings.

Board Committees

To assist the Board in carrying out its functions and to ensure there is independent oversight of financial, audit, internal control and risk issues, review of remuneration as well as oversight and review of Board and executive succession planning, the Board has delegated certain responsibilities to Board Committees.

The Audit Committee oversees and challenges the Group in relation to its internal control and risk management systems in relation to the financial reporting process. Full details of the internal control and management systems in relation to the financial reporting process are given within the Audit Committee report on pages 92 to 96.

In 2016, the Board had four Committees: the Nomination Committee, the Audit Committee, the Clinical Quality and Safety Committee and the Remuneration Committee. The Audit Committee and the Clinical Quality and Safety Committee are comprised solely of Independent Non-Executive Directors. Each Board Committee has agreed Terms of Reference, which are approved by each Committee and the Board and reviewed annually. Each Committee's Terms of Reference can be found on our website at http://ghg.com.ge/page/id/129/terms-of-references.

The Chairman of each Board Committee reports to the Board on the matters discussed at Board Committee meetings. Later in this section you will find reports from the Chairman of each Board Committee which describe the Committee's operation, activities in 2016 and priorities for 2017.

In addition, each Board Committee provides a standing invitation for any Non-Executive Director to attend Committee meetings (rather than just limiting attendance to Committee members).

Board meeting attendance

Details of Board meeting attendance in 2016 are as follows:

Board attendance	Number of meetings attended	Maximum possible meetings	% of meetings attended
Irakli Gilauri (Chairman)	10	10	100%
Nikoloz Gamkrelidze (Executive Director)	10	10	100%
Non-Executive Directors			
David Morrison	10	10	100%
Neil Janin	7	10	70%
Allan Hirst	9	10	90%
Ingeborg Oie	10	10	100%
Tim Elsigood	10	10	100%
Mike Anderson	9	10	90%
Jacques Richier	5	10	50%

Notes:
1 Allan Hirst resigned effective as of 17 December 2016.

Directors' Governance Statement continued

Board size, composition, tenure and independence

We consider that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is important to effectively govern the business.

The Board and its Nomination Committee work to ensure that the Board continues to have the right balance of skills, experience, independence and Group knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance.

We believe our overall size and composition to be appropriate, having regard in particular to the independence of character and integrity of all of the Directors. 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. No individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual.

The average tenure of our Non-Executive Directors is less than two years as all were appointed in August or September 2015, prior to our admission to listing on the London Stock Exchange. We value diversity in all forms in accordance with our Board Diversity Policy, adopted last year. See page 91 for further details.

We have assessed the independence of each of the six Non-Executive Directors and are of the opinion that each acts in an independent and objective manner and therefore, under the Code, is independent and free from any relationship that could affect their judgement. Each Non-Executive Director has an ongoing obligation to inform the Board of any circumstances which could impair his or her independence.

Evaluation of Board performance

The Board continually strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal. For 2016, we engaged Lintstock Ltd ("Lintstock") an external effectiveness evaluation specialist, also engaged by our parent company, BGEO Group PLC, to conduct an evaluation of the Board; our Committees (Nomination, Audit, Clinical Quality and Safety and Remuneration); the Chairman; and the CEO.

The first stage of the review involved Lintstock engaging with our Chairman and Company Secretary to set the context for the evaluation and to tailor the content of the surveys distributed to the Board. All Directors were requested to complete an online survey with questions and free text to expand on their answers. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank disclosure of views.

Lintstock subsequently produced a report which addressed the following areas of Board performance:

- The composition of the Board, taking into account the Group's strategic goals and diversity priorities;
- The relationships between the members of the Board and between the Board and management, as well as the atmosphere in the boardroom;
- The management of time of the Board, including the annual number of meetings, cycle of work, the Board's agenda, as well as the content, format and timeliness of the Board packs;
- The support and training needs of the Directors;
- The clarity of the Group's strategy, the Board's testing and development of the strategy and the effectiveness with which the opinions of stakeholders are considered when drawing up the strategic plan;
- The risk appetite of the Board, the information provided to the Board to support its oversight of risk, and performance of the Board in identifying and managing the main risks facing the Group;
- The structure of the Group at senior levels, the succession planning for the CEO and key executive management positions;
- The Board's exposure to management and the ability of the Board to evaluate executive management; and
- The composition and performance of the Committees, the performance of the Chairman and the CEO.

The results of the evaluations confirmed that the Board and the Committees were operating effectively. In particular, very good progress had been made in: (i) executing the Group's strategy; (ii) succession planning for the Board and executive management; and (iii) oversight of risk management and internal controls. The successful entry into the pharma business through the strategic acquisitions of GPC and ABC was highlighted as an excellent achievement.

No significant changes to the commitments of the Chairman or Non-Executive Directors were identified.

With respect to our objectives set for 2016:

- We closely monitored the execution of our strategy, in particular, the pharmacy acquisition and integration strategy and we were pleased with the progress made.
- We dedicated more time to discuss risk management and internal controls and the new risk management function.
- We added new executive management with expertise to further execute our strategy and strengthened management below the executive management level.

We did not succeed in appointing an additional female Board member despite interviewing several female candidates for the auditing and/or accounting expertise appointment. We will actively continue our recruitment efforts.

The Board's objectives for 2017 are:

- Continuous review of overall strategy for the Group and monitor the implementation of the strategy and financial performance.
- Closely monitor the implementation of the restructured risk management function and the progress made by management to improve the Group's risk management framework and systems of internal control;
- Focus on the integration of the pharma business sales and billing systems into the ERP platform;
- Oversee the implementation of enhanced procedures, protocols and initiatives at our healthcare facilities;
- Continue Board succession planning, with regard to gender diversity;
- Enhance the talent, leadership and personal development programme and expand the programme to other members of management below the executive level.

It is envisaged that Lintstock will conduct a comprehensive review in respect of 2017 performance, which will include in-person meetings with the Board, in order to build upon the issues raised in this year's process in greater depth. The review content for each subsequent evaluation is designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the review are implemented.

Succession planning and Board appointments

We believe that effective succession planning mitigates the risks associated with the departure or absence of well-qualified and experienced individuals. We recognise this, and our aim is to ensure that the Board and management are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver our strategy. We also recognise that continued tenure brings a depth of Group-specific knowledge that is important to retain.

The Board Nomination Committee is responsible for both Director and executive management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. More detail on the role and performance of the Nomination Committee is on pages 90 to 91.

Non-Executive Directors' terms of appointment

On appointment, our Non-Executive Directors are given 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 Chairmen, as applicable. We are confident that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the Board. The Letters of Appointment for our Non-Executive Directors are available for inspection at our Company's registered office during normal business hours.

External appointments

Any external appointment or other significant commitment of a Director requires prior approval of the Board. Our Non-Executive Directors hold external directorships or other external positions but the Board believes they still have sufficient time to devote to their duties as a Director of the Company and believe that the other external directorships/positions held provide the Directors with valuable expertise which enhances their ability to act as a Non-Executive Director of the Company.

Board induction, ongoing training, professional development and independent advice

On appointment, each Director takes part in an induction programme, during which he or she meets members of senior management below the Board level, receives information about the role of the Board and individual Directors, each Board Committee and the powers delegated to these Committees. He or she is also advised of the legal and other duties and obligations of a Director of a premium listed company.

We are 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 2016, which included briefings, site visits, development sessions and presentations by our Group Company Secretary, members of management, external speakers and our professional advisors.

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.

The Directors receive presentations from senior management on their particular area of the business.

Re-election of Directors

In line with the Code's recommendations, all of our Directors seek re-election every year and accordingly all Directors will stand for re-election in June 2017. 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 Chairman and, through him, the chairs of the principal Board committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

As recommended by the UK Corporate Governance Code, all resolutions proposed at the 2017 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, against and those withheld, together with all proxies lodged prior to the meeting.

See page 186 for further on Shareholder Information and on page 99 for further on Shareholder Engagement.

UK Bribery Act 2010 (the "Bribery Act")

The Board stands firmly against bribery and corruption and are committed to the Group 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.

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 116 of this Annual Report. A further statement is provided confirming that the Board considers the Annual Report, 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.

The Board


1. Irakli Gilauri


2. Nick Gamkrelidze


3. David Morrison


4. Neil Janin


5. Mike Anderson

1. Irakli Gilauri

Non-Executive Chairman

Irakli Gilauri was appointed Non-Executive Chairman on 4 September 2015 and was elected by shareholders at the 2016 AGM. Mr Gilauri also serves as a member of both the Nomination Committee and the Remuneration Committee.

Skills and experience:
Mr Gilauri has also been Chief Executive Officer of BGEO Group PLC since 2011, and was appointed Chairman of the Bank in September 2015 having previously served as Chief Executive Officer of the Bank since May 2006, and he also serves as CEO of JSC BGEO Group and is Chairman or CEO of various subsidiaries, and their Supervisory Boards, of the BGEO Group. 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, where he worked on transactions involving debt and private equity investments in Georgian companies.

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.

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.

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. He also serves as CEO to JSC GHG and JSC Evex, Deputy Chairman of the Supervisory Board of JSC Evex, Chairman of the Supervisory Boards of JSC Imedi L and JSC "Saint Nicholas Surgery and Oncology Centre" and a member of the Supervisory Board of JSC GEPHA. Prior to joining Insurance Company Aldagi, 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 in Healthcare Management from the Faculty of General Medicine of Tbilisi with distinctions, and holds an MA in International Healthcare Management from the Tanaka Business School of Imperial College London.

3. 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. Mr Morrison also serves as Chairman of the Audit Committee and a member of the Nomination Committee. During 2016 Mr Morrison served as a member of the Clinical Quality and Safety Committee, until February 2017.

Skills and experience:
Mr Morrison is a member of the New York bar and worked 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. He advised on a number of the largest privatisations in Europe, and was advisor to Germany's development bank, Kreditanstalt für Wiederaufbau (KfW) for over 20 years (serving on the board of directors of KfW's finance subsidiary). 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.

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

4. Neil Janin

Independent Non-Executive Director

Neil Janin was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM. Mr Janin serves as Chairman of both the Nomination Committee and the Remuneration Committee. Mr Janin was recently appointed as a member of the Clinical Quality and Safety Committee in February 2017.

Skills and experience:
Mr Janin was a Director of McKinsey & Company based in its Paris office for over 27 years, from 1982 until his retirement. At McKinsey & Company he conducted engagements in the retail, asset management and corporate banking sectors, and was actively involved in every aspect of organisational practice, including design, leadership, governance, performance enhancement and transformation. In 2009, whilst serving as a member of the French Institute of Directors, Mr Janin authored a position paper on the responsibilities of the board of directors with regards to the design and implementation of a company's strategy. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America. Mr Janin also serves as Chairman of the board of BGEO Group PLC. He has served as counsel to chief executive officers of both for profit and non-profit organisations and continues to provide consulting services to McKinsey & Company. Mr Janin is also a Director of Neil Janin Limited, a company through which he provides consulting services.

Education:
Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

5. 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. Dr Anderson serves as Chairman of the Clinical Quality and Safety Committee and as a member of the Nomination Committee.

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 1997. He served as a medical director at Chelsea and Westminster Hospital from 2003 to 2013, 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 advisor and has been chairman of hospital inspections for the Care Quality Commission. Dr Anderson is an honorary clinical senior lecturer of Imperial College of Science, Technology and Medicine and a member of the British Society of Gastroenterology and 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.





6. Tim Elsigood **7. Ingeborg Oie** **8. Jacques Richier** **9. Paul Goldfinch** **10. Allan Hirst**

6. 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. Mr Elsigood serves as a member of the Audit Committee, the Remuneration Committee and the Clinical Quality and Safety Committee.

Skills and experience:
Mr Elsigood has over 35 years of international healthcare management experience in over 15 countries across the world. He is a Consultant Advisor to Abraaj in Tunisia and Morocco. 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. Prior to this, he was vice president for Medsi Group, a private hospital group in Russia. Before 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. In February 2017, he was appointed as a non-executive director of Avivo Group, a healthcare group based in Dubai, with facilities in the UAE.

Education:
He has an MBA with a focus on health policy and strategy.

7. Ingeborg Oie

Independent Non-Executive Director

Ingeborg Oie was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM. Ms Oie serves as a member of both the Remuneration Committee and the Clinical Quality and Safety Committee.

Skills and experience:
Ms Oie is Head of Investor Relations at Smith & Nephew, the global medical technology company listed on the London Stock Exchange. 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 Oie graduated with a first class honours degree in Biomedical Engineering from Imperial College London and completed an MSc in Public Health at the London School of Hygiene and Tropical Medicine. She is a CFA charterholder.

8. 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. Mr Richier serves as a member of both the Audit Committee and the Nomination Committee.

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. Since 2014, he has also served as Chairman 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 took an MBA course in HEC (Paris) in 1984.

9. Paul Goldfinch

Advisor to the Board; Member of the Audit Committee

Paul Goldfinch was appointed as an advisor to the Board and a member of the Audit Committee from 1 January 2017.

Skills and experience:
Mr Goldfinch is a New Zealand qualified Chartered Accountant and has over 25 years' experience of working as a professional in accounting and finance. He is current the Group CFO of 4Finance, Europe's largest online and mobile consumer lending group, with a presence in 17 countries. As CFO he manages the global finance team and has implemented a significant number of improvements to finance systems and processes. Mr Goldfinch was previously the CFO of the Corporate and Investment Division of Sberbank, Russia's largest banking group. He has significant experience in emerging markets, financial and regulatory reporting and strategy. Mr Goldfinch spent 18 years at UBS AG, where as a Managing Director, he held a number of senior roles, including EMEA Regional Head of Accounting and Controlling, and the CEO and COO roles at OOO UBS Bank in Russia. He commenced his career with global audit and other professional services firm KPMG and then with Citibank NA, before moving to Europe in 1996.

Education:
Mr Goldfinch graduated from the University of Auckland in New Zealand, where he also qualified as a Chartered Accountant.

10. Allan Hirst

Independent Non-Executive Director

Allan Hirst stepped down from the Board on 17 December 2016, having also served as a member of the Audit Committee.

Skills and experience:
Mr Hirst was employed by Citibank N.A. for nearly 25 years until his retirement in February 2005. At Citibank N.A. he led the bank's expansion into Central and Eastern Europe, Russia and Central Asia. From 1999 to 2004, Mr Hirst served as President and Managing Director of ZAO Citibank Russia, having oversight over the bank's operations in the CIS. Prior to moving to Russia, Mr Hirst worked in various senior roles at Citibank, including as division executive in the Middle East and Indian subcontinent, and as division executive responsible for establishing the bank's network in Central and Eastern Europe. Mr Hirst additionally serves as a non-executive director of the Financial Services Volunteer Corps (FSVC) and Phico Therapeutics. He is also a member of the executive committee of the board of the FSVC. Mr Hirst was a Non-Executive Director of BGEO Group PLC from October 2011 to December 2013.

Education:
Mr Hirst received an MBA from the University of Texas.

Management Team

1. Irakli Gogia

2. David Vakhtangishvili

3. Giorgi Mindiashvili

4. George Arveladze

5. Glvi Giorgadze

6. Gregory Khurtsidze

Nick Gamkrelidze

Chief Executive Officer

Please see his biography on page 86.

1. Irakli Gogia

Deputy CEO Finance and Operations

Irakli Gogia was appointed Deputy CEO Finance on 27 March 2017. He continues to also hold the role of Deputy CEO Operations since his appointment on 29 April 2015. Prior to this, 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 Bachelors of Business Administration 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 by the Minister for Education of the United Kingdom.

2. David Vakhtangishvili

Deputy CEO (Chief Risk Officer)

David Vakhtangishvili was appointed as Deputy CEO Risk Management on 27 March 2017. Prior to that he was the Deputy CEO Finance from 29 April 2015 to 27 March 2017 (including for the full financial year 2016). 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.

Mr Vakhtangishvili has a BBA diploma issued by the Free University Business School (ESM).

3. Giorgi Mindiashvili

Deputy CEO Commercial

Giorgi Mindiashvili was appointed as Deputy CEO, Commercial on 29 March 2015. Prior to this role, Mr Mindiashvili was CEO of Evex Medical Corporation 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.

4. George Arveladze

Deputy CEO Ambulatory and Pharmaceutical Business

George Arveladze was appointed as Deputy CEO, Ambulatory and Pharmaceutical Business in March 2016. Prior to joining the Group, Mr Arveladze worked as CEO of Liberty Bank, Georgia's third largest retail bank, which he led from 2013. Prior to his appointment as CEO of Liberty Bank, Mr Arveladze served as Deputy CEO in charge of Strategic Projects, Treasury and Private Banking from 2009 to 2011 at Liberty Bank. Before returning to Georgia in 2009, he worked in structured products sales at BNP Paribas London. Prior to that, he worked at the National Bank of Georgia.

Mr Arveladze holds an MBA from London Business School.

5. Glvi Giorgadze

CEO, Insurance Company Imedi L

Givi Giorgadze was appointed as CEO of Imedi L in 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.

6. 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 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, is trained in internal medicine and as a hospitalist. Dr Khurtsidze is also licensed in Washington and Kentucky, USA.

7. Enrico Beridze

8. Mikheil Abramidze

9. Nino Kortua

10. Nino Chichua

11. Medea Chkhaidze

12. Otar Lortkipanidze

13. Manana Khurtsilava

7. Enrico Beridze

CEO GEPHA

Enrico Beridze was appointed CEO GEPHA, the combined pharmaceuticals business, on 6 January 2017. Prior to this appointment 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 focussing on the oncology business.

Mr Beridze holds a Bachelors degree in Biology from the Moscow State University.

8. Mikheil Abramidze

Head of Operations at GEPHA

Mikheil Abramidze was appointed as Head of Operations of GEPHA, the combined pharmaceuticals business, on 6 January 2017. Prior to this Dr Abramidze was COO of ABC Pharmacia for more than 15 years, having founded it with Enrico Beridze in 1999 where 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 has completed his M.D. in General Medicine in "AIETY" Highest Medical School.

9 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.

10. Nino Chichua

Chief Marketing and Communications Officer

Nino Chichua was appointed Chief Marketing and Communications Officer on 29 April 2015. Prior to joining Evex Medical Corporation 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. Furthermore, she cooperates with various universities and runs academic activities.

Ms Chichua holds MBA from Tbilisi European School of Management ("ESM") and EM degree in Marketing & Sales from ESADE Business School, Spain and SDA Bocconi School of Management, Italy.

11. Medea Chkhaidze

Chief HR Officer

Medea Chikaidze was appointed Chief HR Officer on 29 April 2015. Prior to this role, Mrs Chkhaidze was Head of HR at Insurance Company Aldagi from 2009 to 2014 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 same organisation from 2001 to 2007.

Mrs Chkhaidze holds a Masters Degree in social psychology and conflict management from Ivane Javakhishvili Tbilisi State University.

12. Otar Lortkipanidze

IT Director

Otar Lortkipanidze was appointed IT Director on 29 April 2015. Prior to joining Evex Medical Corporation, he worked at GPI Holding insurance company. From 2009 to 2012, Mr Lortkipanidze worked for Georgian Water and Power as the head of their IT department. In 2008, he joined Georgian Card as head of the new product development department. From 2006 to 2008, he was head of the IT department and IT consultant for various projects at audit company UBC International. Mr Lortkipanidze started his career as a system administrator in Atlanta, Georgia, where he worked from 2002 to 2004.

Mr Lortkipanidze has a BA degree in computer science (Brevard College, United States) and a Master of Science in IT management (CEU Business School, Budapest).

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. Ms Khurtsilava has worked at Bank of Georgia for 11 years. During this time, 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.

Nomination Committee Report

Neil Janin
Chairman of the Nomination Committee

Chairman's Overview

I am pleased to present the Nomination Committee report for 2016.

The Nomination Committee focused on Board succession planning, having identified accounting and/or auditing experience and further diversification of the Board as key priorities, as well as senior management succession planning in line with our strategic objectives. We also reviewed the time commitment of the Non-Executive Directors, recommended to the Board the re-appointments of all Non-Executive Directors at our AGM, and carried out our annual review of the Board Diversity Policy and facilitated the evaluations of the Board and our Committees, both externally and internally.

We successfully implemented our succession plan in respect of accounting expertise, with the addition of Paul Goldfinch, who was appointed as an advisor to the Board and a member of the Audit Committee from 1 January 2017. Although we interviewed female candidates, we did not increase female representation on the Board. In 2017, we will maintain gender diversity as a key focus for Board succession planning.

2016 was a year of great growth for the Group, including the addition of new business lines and the need for an expanded base of skills, knowledge and experience in senior management. We were particularly pleased to appoint a new Head of Clinical, a new CEO to lead our new pharmaceuticals business and a new CEO of Imedi L.

We were pleased to see the launch of the ambitious leadership programme, which is part of our vision for talent management and succession planning for the future of the Group.

As discussed on page 91, Lintstock performed a detailed review of the effectiveness of the Nomination Committee as well as the Board and other Committees. The results confirmed that the Board and Committees are effective and dedicated to best practice corporate governance.

I invite you to read more about our work in the following report.

Neil Janin
Chairman of the Nomination Committee
13 April 2017

Responsibilities of the Nomination Committee

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 executives, 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 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 prepare a job specification for the appointment of a Chairman, including the time commitment expected;
- to keep under review the leadership needs of the Group, both for Executive and Non-Executive positions, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;
- to review annually the time required from Non-Executive Directors. Performance evaluation should be used to assess whether the Non-Executive Directors are spending enough time to fulfil their duties; and
- to make recommendations to the Board concerning the formulation of succession plans for both Executive and Non-Executive Directors and in particular for the roles of Chairman and Chief Executive Officer.

The Nomination Committee's full terms of reference are available on the Group's website: http://ghg.com.ge/uploads/pages/nominationcommitteetermsofreference69-85.pdf.

Composition of the Nomination Committee and meetings

The Nomination Committee must have at least five members, the majority of whom must be independent Non-Executive Directors. The Board appoints the Chair of the Committee who must be either Chairman of the Board or an independent Non-Executive Director.

The biographies of the members of the Nomination Committee are set out on pages 86 and 87.

The composition of the Nomination Committee and the member's meeting attendance for the year 2016 is set out below.

Member attendance	Number of meetings attended	% of meetings attended
Neil Janin (Chairman)		100%
Irakli Gilauri		100%
David Morrison		100%
Mike Anderson		100%
Jacques Richer		100%

Meetings are attended by the CEO 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 addition non-Committee Board members are also invited to attend.

At meetings, the Nomination Committee receives detailed reporting on potential leads for positions which they have identified may be necessary or useful for the Company.

Meetings of the Nomination 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.

Board Diversity Policy

The statement and objectives of our Board Diversity Policy are as follows:

Statement

Our Board embraces diversity in all its forms. Diversity of skills, background, knowledge, technical expertise, nationality, ethnicity and gender, amongst other factors, will be taken into consideration when seeking to appoint a new Director to the Board.

Notwithstanding the foregoing, any Board appointment will always be made based on merit.

Objectives

- The Board should ensure the appropriate mix of skills and experience to ensure an effective Board.
- The Board should ensure that it comprises a majority of Directors who are independent in character and judgement.
- The Board aims to increase the number of women on the Board.

Board recruitment and appointment process

The Board has formal, thorough and transparent procedures in place for Board recruitment and appointment. As mentioned above, 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.

In identifying suitable candidates, we typically seek recommendations from trusted advisors but may also use open advertising or external search services to facilitate the recruitment. We carefully assess each candidate against our objectives and Board Diversity Policy, and take care that appointees have enough time available to devote to the position.

Shortlisted candidates are generally seen first by the Chairman, the Chairman 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 an appointment first as an advisor to the Board and relevant Committees, with the Board deciding whether to extend an advisory agreement to the candidate. After serving as an advisor, the Nomination Committee will agree whether to recommend that the advisor be appointed to the Board. The Board will ultimately resolve whether to make the suggested appointment.

Nomination Committee activities in 2016

With respect to Board succession planning in 2016, we actively recruited an advisor to the Board and a member of the Audit Committee with accounting and/or audit experience in order to complement the skills that we identified as necessary for the Board and Audit Committee.

Last year, we received the names of various candidates from our trusted advisors and shortlisted various candidates with accounting and/or auditing experience who had previously served as a chief financial officer or a member of Audit Committees. We follow our Board recruitment and appointment process as discussed above and through the recommendation of candidates, we interviewed candidates. The shortlisted candidates were seen by Neil Janin, Irakli Gilauri and David Morrison in London in October 2016 and the preferred candidate, Paul Goldfinch, was invited to speak with/meet other members of the Nomination Committee as well as members of management. We then decided to recommend Mr Goldfinch as an advisor to the Board and a member of the Audit Committee. The Nomination Committee is always mindful of its Diversity Policy when recruiting. We did not succeed in appointing an additional female Board member despite interviewing several female candidates for the auditing and/or accounting expertise appointment. We will actively continue our recruitment efforts.

We further strengthened our senior management team across the Group in line with the growth of the Group, new business lines and our strategic objectives. At executive management level we appointed Gregory ("Gia") Khurtsidze as Chief Medical Officer/ Head of the Clinical Department from February 2016. Gia has more than 20 years' of experience in leading healthcare institutions and an extensive and through knowledge of clinical practice as well as an understanding of the Georgian healthcare system, all of which has been of great benefit to the Group at both head office and hospital level.

The insurance business was strengthened by the appointment of Givi Giorgadze as CEO of Imedi L, who has nine years of experience in the insurance section and a further seven in wealth management.

The acquisition of the pharmaceuticals business required recruitment of leaders with the appropriate expertise and calibre. Mr Enrico Beridze, CEO of ABC for more than 15 years, was appointed in November (effective January 2017) to lead the combined pharmaceutical business, GEPHA, comprised of GPC and ABC. Mr Mikheil Abramidze, the COO of ABC will be in charge of the operations of GEPHA. Mr George Arveladze will be the Chairman of GEPHA.

The Company has also strengthened its operations, insurance and commercial teams.

People development is key to Georgia Healthcare Group. In 2016 we launched a leadership programme for mid level managers. 25 managers embarked on the first stage, a management course of 180 hours over five to six months. The management course was designed by the Bank of Georgia university and tailored to the needs of the Group. In 2017 we aim to have an additional 50 managers enrolled on the course and will also provide further study and growth opportunities for middle management as part of the leadership programme. The leadership programme form parts of our vision for talent management and succession planning for the future of the Group.

Committee effectiveness review

Lintstock performed the effectiveness review of the Committee. The evaluation principally addressed how effectively the Committee reviews the composition of the Board and the Board Committees as well as develops and implements succession plans for both the Board and executive management.

The evaluation concluded that the Committee continues to operate and perform effectively.

Looking ahead to 2017

In the coming year the Nomination Committee will:

- Remain focused on the composition of the Board;
- Continue to develop Board and management succession plans in line with Group strategy for the medium to long-term; and
- Oversee the expansion of the talent development and leadership programme to members of management below the executive management level.

I look forward to reporting in next year's Nomination Committee report the progress made by the Committee.

Audit Committee Report

David Morrison
Chairman of the Audit Committee

Chairman's Overview

Dear Shareholders,

2016 was the first complete financial year since we listed on the London Stock Exchange and also a time when our Group continued to rapidly evolve and expand.

During the year, the Committee focused on fulfilling its core responsibilities in line with best practise corporate governance. We also prioritised understanding and meeting our increased obligations recently introduced by the new EU Audit regime.

We are proud of what we achieved in 2016. In particular:

- We reviewed the significant financial judgements made during the financial year and in the preparation of the Annual Report and Accounts, including in relation to revenue recognition, goodwill and the valuation of premises.
- We monitored the implementation of the business strategy and its impact on the Group's internal control and risk management framework. The integration of IT and information systems across the Group and rollout of a new ERP system were two areas of particular focus due to our multiple acquisitions and entry into the pharma business.
- We worked with the Internal Audit function to enhance the scope and coverage of its activities to reflect the rapidly evolving business.
- We reviewed the process and timeline for assessing the effectiveness of the external auditor, conducted the review and made a final recommendation to the Board to re-appoint EY for the year ending 31 December 2017.
- We revised our Policy on Non-Audit Services and Terms of Reference to align with the new EU Audit regime.
- At the request of the Board, we conducted a review of this Annual Report to confirm that it was fair, balanced and capable of being understood by shareholders.

In 2016, we successfully recruited a new Committee member with excellent audit and accounting experience.

I now invite you to read more about our work in the following report.

David Morrison
Chairman of the Audit Committee
13 April 2017

Composition and operations of the Audit Committee

The members' attendance during 2016 is provided below.

Member attendance	Number of meetings attended	% of meetings attended
David Morrison	8	100%
Tim Elsigood	8	100%
Jacques Richier	6	67%
Allan Hirst (retired on 17 December 2016)	8	89%

In December 2016, the Board appointed Paul Goldfinch to serve as an advisor to the Board and as a member of the Audit Committee effective as of 1 January 2017. Since his appointment, Mr Goldfinch has participated in all informal and formal meetings and actions of the Committee, including the finalisation of the Preliminary Results Release and Annual Report and has assisted the Committee in fulfilling its responsibilities.

We believe that the composition of the Audit Committee provides the range of financial and commercial expertise necessary for the Committee to operate effectively and fulfil its wide range of responsibilities. Each member has recent and relevant financial experience and Mr Goldfinch also has accounting and auditing experience.

The biographies of the Audit Committee members are set out on pages 86 and 87.

The Audit Committee works to a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it considers regularly under its Terms of Reference. It also reacts to relevant business developments as and when they occur. Our meetings are regularly attended by the CFO, Head of Internal Audit, Director of Legal, Head of IT and occasionally by our CEO. Starting in March 2017, our new Chief Risk Officer, a newly established role created to lead the re-structured Risk Management function (now integrated and centralised at the Group level), began attending Committee meetings. The external auditor also attends the Audit Committee meetings. During the year, we also regularly held separate private meetings with the head of Internal Audit and the external auditor. These sessions with the external auditor, which are not attended by management, allow us to discuss any issues of concern in more detail directly with the audit teams. From time to time, other members of management are invited to attend meetings in order to provide a deeper level of insight into any key issues and developments.

Meetings of the Audit Committee take place prior to the Board meeting in order for the Audit Committee to report its activities and matters of particular relevance to the Board.

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

Key purpose and responsibilities

On behalf of the Board, the Audit Committee encourages and seeks to safeguard high standards of integrity and conduct in financial reporting, internal control and risk management (together with the Clinical Quality and Safety Committee) and internal audit. It also oversees the work of our external auditor. The Audit 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.

The primary roles and responsibilities of the Audit Committee include:

Financial reporting
- monitoring the integrity of the Group's financial statements and any formal announcements relating to the Company's performance, before recommending them for approval by the Board;
- reviewing the appropriateness of the Group's accounting policies and practices;
- evaluating material areas in which estimates and judgements have been applied and reviewing the appropriateness of the financial reporting judgements made;
- monitoring significant issues that have been discussed with the external auditor and any significant adjustments resulting from the audit;
- assessing the clarity, consistency and completeness of disclosure, including compliance with financial reporting standards and relevant financial and governance requirements;
- reviewing and challenging both the going concern assumption and the viability statement; and
- informing the Board of the outcome of the Group's external audit and explaining its contribution to the integrity of its financial reporting;

Narrative reporting
- at the Board's request, reviewing the content of the Annual Report and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- at the Board's request, assisting in relation to the Board's assessment of the principal risks facing the Group and the prospects of the Group for the relevant disclosures required in the Annual Report;

Internal financial controls
- ensuring that there are clearly defined lines of accountability and delegation of authority; and
- reviewing the effectiveness of the Group's internal financial controls, including the policies and overall process for assessing established systems of internal financial control and timeliness as well as effectiveness of corrective action taken by management;

Legal and compliance
- assisting the Board to monitor potential conflicts of interests;
- overseeing the Group's policies, procedures and controls for:
  - preventing bribery and corruption;
  - identifying and preventing money laundering; and
  - safeguarding the Group's arrangements for whistleblowing;
- monitoring the status of threatened and on-going litigation as well as regulatory compliance;

Financial risk
- monitoring currency, liquidity and credit risk, including overseeing the Group's policies, procedures and controls related to these risks; investigating any weaknesses identified; and monitoring management response to such findings;

Operational risk
- monitoring various areas of operational risk, including overseeing the Group's policies, procedures and controls and investigating control weaknesses as well as management's response to such findings in respect of:
  - IT and information security (including cyber-security);
  - corporate security and similar areas of non-clinical operational risk;
  - internal and external fraud or misconduct; and
  - working closely with the Clinical Quality and Safety Committee when the nature of the operational risk requires oversight by both Committees;

Internal audit
- monitoring and reviewing the role, effectiveness and independence of the Group's internal audit function in the context of the Group's overall financial risk management system;

External audit
- overseeing the relationship with the Group's external auditors, including reporting to the Board each year whether it considers the audit contract should be put out to tender, adhering to any legal requirements for tendering or rotation of the audit services contract as appropriate;
- reviewing and monitoring the external auditor's objectivity and independence;
- agreeing the external auditors' scope of work and fees paid for the audit;
- assessing the effectiveness of the audit process; and
- agreeing the policy in relation to the provision of non-audit services.

The Audit Committee's full Terms of Reference are available on our website at http://ghg.com.ge/uploads/pages/auditcommitteetermsofreference3-43.pdf.

Financial reporting

A principal responsibility of the Audit 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 our own independent knowledge of the Group, we reviewed and challenged where necessary, the actions, estimates and judgements of management in relation to the financial statements.

The significant risks and financial judgements considered by the Audit Committee in relation to the financial statements are addressed below.

Risk of fraud in revenue recognition

Management explained to the Committee the revenue recognition processes for the healthcare, pharma and insurance businesses. The Committee then reviewed in conjunction with management the design and operation of key controls, including the ERP solution introduced in the healthcare and insurance businesses in 2016. Although further improvements to the ERP solution will be made in 2017 as the platform is expanded to include the pharma business, no significant ERP weaknesses have been identified by management or Internal Audit to date and we believe the system is operating effectively.

The Committee also discussed with the external auditors their review of the controls. On the basis of this review, the Committee concluded that these risks are appropriately managed. It noted that while the revenue recognition process in the newly acquired pharma businesses is functioning properly, the revenue recognition controls for the pharma business will be a key area of focus in 2017 as ABC and GPC are merged and all sales and billing systems, amongst other software and applications, are integrated under one platform.

Audit Committee Report continued

Business combinations
During the year, the Group entered into the pharma business through the acquisition of GPC, acquired other smaller subsidiaries and finalised the acquisition accounting for LLC Deka and GNCo, which were both acquired in 2015. The Group also agreed in 2016 to acquire a second pharma business, which was completed in early 2017.

In relation to the acquisition of GPC, the Committee reviewed with management the fair value of identifiable assets acquired (including any intangible assets) and allocation of the purchase price between identifiable assets and goodwill.

Our management explained the methodology and assumptions underlying the calculation of fair value for each type of asset. The Committee also questioned management as to whether all intangible assets had been identified. Management provided a thorough explanation as to why no material intangible assets were identified and recognised from recent acquisitions. It was reported that all tangible fixed assets were recognised at fair value, based on independent appraisal reports. The Committee is comfortable that managements' calculation of the fair value of assets acquired and the allocation to goodwill are appropriate.

Goodwill impairment
The Group carries goodwill on its balance sheet as a consequence of its acquisitions of the pharma business and numerous hospitals and other healthcare facilities. The Committee received a management report outlining the goodwill impairment assessment, the valuation methodology used, applicable assumptions and future cash flow projections. The sensitivity analysis used in determining goodwill impairment was also detailed. After challenging key assumptions, the Committee is satisfied that there was no impairment of goodwill impairment during the year.

Valuation of hospitals, clinics, land and office buildings
We received management reports on the assumptions to be used in valuing the Group's hospitals, clinics, land and office buildings. In 2016, the Group engaged an independent external valuer to appraise 45 of its hospitals and clinics as well as land and office buildings. Management presented the results of the external valuation to the Committee. In respect of its hospitals and clinics, the appraisal value was approximately GEL 20 million higher than historical value. With respect to land and buildings, the valuation confirmed that any change in value was insignificant.

Our auditors tested the valuation and reported its findings. We scrutinised and challenged management accordingly and we were satisfied with the assumptions and judgements applied. Disclosures in relation to our property valuations are set out in Notes 11 and 40 of the consolidated financial statements.

In addition to the significant financial judgements discussed above, we also discussed accounting and financial reporting matters relating to:
- the classification of non-recurring income and expenses;
- provisions for ongoing litigation;
- gains in foreign currency arising from hedge accounting;
- changes in tax treatment of profit distributed as dividends and profit which is undistributed and reinvested; and
- the implementation timetables of IFRS 9, 15 and 16.

Internal audit

The Internal Audit function which was newly established in 2015 has continued to evolve throughout 2016. The function is split into two different units: Clinical Internal Audit and Non-Clinical Internal Audit. Internal audits of clinical processes are reported directly to the Clinical Quality and Safety Committee and non-clinical internal audits are reported directly to the Audit Committee.

The Non-Clinical division of the Internal Audit department serves as the Group's independent assurance over the adequacy and effectiveness of the risk management processes and systems of internal control in place across the Group. The Audit Committee monitors the scope, extent and effectiveness of the Group's Non-Clinical Audit function. The Committee reviews and approves the Non-Clinical Internal Audit Policy and oversees the Non-Clinical Internal Audit Plan, which is designed using a risk-based approach, aligned to the Group's strategy.

The Non-Clinical Internal Audit department reviews a number of areas of risk pursuant to a programme approved by the Audit Committee. Throughout the year, we received regular reports from the Non-Clinical Internal Audit department on its audit activities and significant findings as well as the corrective measures recommended to management. We also reviewed and monitored management's responsiveness to the corrective measures proposed through follow-up reports provided by Internal Audit.

The Head of Internal Audit has direct access to the Audit Committee and the opportunity to discuss matters with the Audit Committee without other members of management present. We also monitor the staffing of the Non-Clinical Internal Audit department as well as the relevant qualifications and experience of the team. In 2016, we approved an increase in budget to ensure that staffing needs were met and that senior staff were sufficiently remunerated. The number of staff increased from three in 2015 to five at the end of 2016.

Throughout the year, we assessed the performance of our Non-Clinical Internal Audit function by measuring progress against the agreed plan, taking into account the rapid expansion of the Group. We also worked with the Head of Internal Audit to develop a more effective and efficient method of reporting. Consequently, the quality of reporting improved in 2016 and the Non-Clinical Internal Audit team was able effectively to address any unsatisfactory results highlighted. We concluded that the Non-Clinical Internal Audit function is effective and conforms to the standards set by the Institute of Internal Auditors. We think that although Non-Clinical Internal Audit improved its responsiveness to management needs in 2016, there is room for further improvement to ensure that it is fully respected by management, and this is an area we will be monitoring in 2017.

External audit

With respect to our responsibilities for the external audit process on behalf of the Board, we:
- approved the annual audit plan, which includes setting the areas of responsibility, scope of the audit and key risks identified;
- oversaw the audit engagement, including the degree to which the external auditor was able to effectively assess key accounting and audit judgements;
- reviewed the findings of the external audit team with the external auditor, together with the level of errors identified during the audit;
- monitored the responsiveness of the relevant management teams to the external auditor's findings and recommendations along with any corrective measures taken;
- reviewed the content of the management letter issued by the external auditor;
- reviewed the qualifications, expertise and resources of the external auditor;
- monitored the extent of the external auditor's independence, objectivity as well as their compliance with ethical, professional and regulatory requirements;
- reviewed the level of audit fees and the cost-effectiveness of the audit;
- monitored the rotation of key partners of the external audit in accordance with applicable legislation; and
- recommended the appointment, re-appointment or removal, as applicable, of the external auditor.

Audit tender and lead audit partner rotation
EY was appointed as our Group statutory auditor in 2015 ahead of our listing on the London Stock Exchange, following a competitive tender process. The Group will be required to put the external audit contract out to tender no later than 2025.

The Committee continues to review the services provided by the external auditor and will consider and provide advance notice when it considers it necessary to re-tender the position.

The Committee confirms that it has complied with the requirements of the Audit Regulation (Regulation (EU) 537/2014) and Audit Directive (Directive 2014/56/EU) as implemented by the Statutory Auditors and Third Country Auditors Regulations 2016, for the year ended 31 December 2016.

Following the retirement of Andrew McIntyre upon completion of the 2015 audit, EY appointed John Headley as our new lead audit partner.

Auditor independence
The Audit 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.

In 2016, we revised our policy on the provision of non-audit services by our external auditors to align with the new EU Statutory Audit regime and recent amendments to the UK Corporate Governance Code. Any work other than for audit or interim statements to be undertaken by the external auditor now requires authorisation by the Audit Committee except in very narrow circumstances. Further, the Policy on Non-Audit Services requires that fees incurred, or to be incurred, for work other than for audit or interim statements both individually and in aggregate, do not exceed the applicable limits in place as set out by European law. The Group's current Policy on Non-Audit Services was revised and approved in December 2016 and can be found on our website at http://ghg.com.ge/uploads/pages/policyonnonauditservices34-48.pdf.

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, and their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and the value of non-audit services provided by EY.

EY has confirmed that it believes it 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 33 of the audited IFRS Financial Statements for 2016, the total fees paid to EY for the year ended 31 December 2016 were GEL 1.63 million of which GEL 0.4 million related to the Group's 2016 half year interim accounts review. None of these fees related to work other than the audit or review of the interim accounts.

Effectiveness
We have an established framework for assessing the effectiveness of the external audit process. This includes:
- a review of the audit plan, including the materiality level set by the auditors and the process they have adopted to identify 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 review of EY's 2016 Transparency Report and the annual FRC Audit Quality Inspection Report of EY; and
- a formal questionnaire issued to all Committee members and senior management of the Group who are involved in the audit (including internal audit) which covers among other items the quality of the audit and audit team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the audit team's communication with the Committee and management and the auditors' independence and objectivity.

After carefully considering the outcome of the above review, we concluded, in conjunction with management, and reported to the Board that in our opinion:
- the audit team was sound and reliable;
- the quality of the audit service provided was of a high standard;
- that EY continued to remain independent and objectivity;
- that EY was effectively able to challenge management when required; and
- that productive discussions were held with the Committee throughout audit planning process.

The Committee has recommended to the Board that EY be re-appointed under the current external audit contract and the Directors will be proposing the re-appointment and the determination of EY's remuneration at the 2017 AGM.

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

The Audit Committee ensures that there are effective procedures relating to whistleblowing. In particular, we have developed a Whistleblowing Policy which allows staff to confidentially raise any concerns about business practices confidentially through an independent whistle-blowing hotline. We keep this policy under review and receive regular updates from management as to any issues raised by employees.

We have also developed a Conflicts Authorisation Policy through which we assess actual and potential conflicts of interest and assist the Board in its review of the permissibility of such conflicts.

The Audit Committee also keeps under review the Group's Anti-Bribery and Anti-Corruption Policy and procedures and receives reports from management on a regular basis in relation to any actual or potential wrongdoing. There were no significant findings in 2016.

Risk management and internal controls

The Audit Committee recognises that a strong and effective system of risk management and internal control plays a crucial role in a good system of Corporate Governance. Although the Board assumes the ultimate responsibility for the Group's risk management and internal control framework, its work is supported by both the work of the Audit Committee and the Clinical Safety and Quality Committee.

In relation to risk management and internal financial control, the Committee assists the Board in fulfilling its responsibilities with regards to seeing that there are adequate and effective controls in place within the Group's financial reporting lines and within its operations. In particular the following operational risks are regularly reviewed: IT and information security (including the increasing threat of cyber-security), corporate security and any internal or external fraud or misconduct. The Committee also monitors the Group's compliance with the corporate governance policies and procedures in relation to anti-bribery and anti-corruption, conflicts of interest and whistleblowing.

Audit Committee Report continued

The Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities. As described earlier in this Report, this includes reports from and regular discussions with the Group executives with whom the Committee members regularly meet. We receive Internal Audit's reports on the control environment and, as mentioned earlier, we approve the Non-Clinical Internal Audit Plan which is risk-based and is aligned to the Group's strategy.

The findings of each completed internal audit in 2016 (see subsection "Internal Audit" on the previous page) were presented to the Committee and included a recommended management action plan in relation to any weaknesses identified. Our Internal Audit team regularly reported to the Committee the progress made by management in implementing any such action plans until each audit issue identified was fully resolved. The Committee is pleased to report that during 2016 and up to the date of this Annual Report, our Internal Audit team did not find any significant weaknesses in our risk management processes or internal controls.

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, we are satisfied that our overall internal control framework is effective.

In 2017, the Group will be implementing a fully restructured risk management function, aimed at centralising the assessment of risk management and the framework and systems of internal control at the highest level of Group executive management. A newly created role of Chief Risk Officer was established and our CFO assumed this role in March 2017. Policies, procedures and internal controls are being implemented to establish a consistent application throughout the Group. In centralising these functions and putting in place an integrated risk management framework and systems of internal control at Group level, as opposed to independent risk management within each business unit, we aim to achieve the earlier identification of risk, faster mitigation and harmonised risk reporting.

Continuing education and training

Throughout the year, the Audit Committee received presentations and training from the PLC Legal and Compliance/Company Secretariat department in respect of recent EU Audit Reforms, amendments to the Companies Act 2006, Disclosure Guidance and Transparency Rules and UK Corporate Governance Code as well as the revised FRC publications. Discussions principally focused on changes applicable to the Committee and its accountability and addressed: (i) Committee competence and composition; (ii) key judgments; (iii) risk management and internal control systems; (iv) internal audit; (v) non-audit services; and (vi) appointment of the external auditor and retendering.

Viability statement

In accordance with the revised Code, the Directors are required to assess the viability of the Group. We spent time considering the timeframe over which the viability statement should be made as well as an assessment underlying the period of coverage, which we agreed should be three years, which corresponds to the Group's business planning cycle.

In particular, we looked closely at the Group's principal risks and uncertainties, including those that will threaten our business model, future performance and solvency or liquidity; the current financial position of the Group, including future cash flows, allocated capital expenditure and funding requirements; future prospects; and downside stress testing. We discussed our analysis with management and the full Board. The viability statement is set out on page 67.

Fair, balanced and understandable reporting

At the request of the Board, we reviewed the 2016 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 performance, business model and strategy.

We did this by satisfying ourselves that there was a robust process of review and challenge at different levels within the Group to ensure balance and consistency. We reviewed several drafts of the 2016 Annual Report and directly reviewed the overall messages and tone of the Annual Report with the CEO and CFO. We also considered other information regarding the Group's performance and business presented to the Board during the period, both from management and the external auditor. After consideration of all of this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness review

An externally facilitated review of the Committee was performed by Lintstock. The evaluation principally addressed the composition of the Committee, the review and testing of the work of the internal and external auditors as well as the quality of financial reporting, the assessment of internal controls and risk management within the scope of the Committee's responsibilities as well as the division of responsibilities between the Committee and the Clinical Quality and Safety Committee. The effectiveness evaluation concluded that the Committee operates and performs effectively.

Based on the results of the evaluation and further internal discussion, our priorities for 2017 are to:

- continue to improve the Group's risk management framework and systems of internal control;
- focus on the integration of the pharma business sales and billing systems into the ERP platform; and
- support the delivery of a comprehensive internal audit programme to ensure that the scope and coverage of the department's work reflects the growth of the Group and addition of new business lines.

Clinical Quality and Safety Committee Report

Mike Anderson
Chairman of the Clinical Quality and Safety Committee

Chairman's Overview

I am pleased to present the Clinical Quality and Safety Committee's report. 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 aims to promote a culture where quality and safe patient care are at the centre of management's actions.

Excellent progress has been made in analysing our growing number of clinical facilities and understanding where the Group can harmonise or advance its framework, especially with the addition of the pharma businesses. I am pleased to say that the Clinical Process Audit Unit of our Internal Audit team undertook and regularly reported to the Committee on their extensive programme of audits including medical document maintenance processes, controlled drugs management processes, management process for damaged and expired drugs in pharmacies, regulatory compliance and follow-up audits of identified areas for improvement.

Our employees have been excellent in their supportiveness and openness in respect of these audits and our subsequent Committee enquiries and we are working with the relevant employees to help achieve more uniformity across the Group in our methods of reporting and to ensure we embed robust processes and practices.

The Committee has received regular reports from the Head of Clinical Department/Deputy CEO to ensure a good flow of information on data points, reporting procedures and to consider the many initiatives he is leading to develop the risk framework for the Group. This year the foremost initiatives were an extensive training around infection control and establishing effective reporting mechanisms and culture for mortality rates in referral hospitals.

Committee members also met with the Heads of the Group's clinical teams individually to gain a greater understanding of how clinical governance is working within each clinical specialty and to consider how the Group can continue to improve through this period of rapid growth. In addition we have visited several of the sites throughout the last year to review facilities and practices and to talk to doctors about their work.

I invite you to read more about these and the other main activities of the Committee in the report below.

Mike Anderson
Chairman of the Clinical Quality and Safety Committee
13 April 2017

The role of the Clinical Quality and Safety Committee

The role of the Clinical Quality and Safety Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of the Group's non-financial risks and their associated processes, policies and control including monitoring the Group's clinical quality, internal control and assurance frameworks. The Committee also assists the Board in promoting a culture of high quality and safe patient care and experience.

The key responsibilities of the Clinical Quality and Safety Committee are to:

- review the Group's clinical performance;
- scrutinise the adequacy, effectiveness and quality of the Group's clinical services, governance, audit, risk management processes, internal control procedures and policies to ensure the delivery of safe high quality clinical services to patients;
- scrutinise all unexpected deaths occurring in hospital sites and report these to the Board;
- review evidence of compliance with statutory notification requirements and responses to any statutory notices issued by authorities and report these to the Board;
- review evidence of compliance with regulation and best practice and Group policies and procedures in respect of clinical care and quality, and annually the Group's clinical risk management and internal control procedures;
- review the Group's health and safety performance;
- scrutinise the adequacy, effectiveness and quality of the Group's health and safety policy and procedures; and
- review engineering, facilities and plant risk management arrangements, policies and performance, including carbon reduction policy.

In discharging its duties, the Committee engages with and receives regular reports from the Head of Clinical Department/Deputy CEO and supervises the clinical quality aspects of internal audit (the organisational and reporting structure of the internal audit department is set out on page 65).

The principal risk categories overseen by the Clinical Quality and Safety Committee include medical and clinical, record-keeping and similar statutory compliance, health and safety, facilities and plant (the Audit Committee oversees financial-related risks, IT, cyber security, compliance and similar areas of operational risks).

The responsibilities and functioning of the Committee are governed by a formal terms of reference approved by the Board which is subject to regular review. The Clinical Quality and Safety Committee's full terms of reference are available from the Group's website: http://ghg.com.ge/uploads/pages/clinicalqualityandsafetycommitteetermsofreference16-93.pdf.

Composition of the Clinical Quality and Safety Committee and meetings

The Clinical Governance and Safety Committee must have at least two members, one of whom must be an independent Non-Executive Director. 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 86 and 87.

Clinical Quality and Safety Committee Report continued

The composition of the Clinical Quality and Safety Committee and the member's meeting attendance for the year 2016 is set out below.

Member attendance	Number of meetings attended	% of meetings attended
Mike Anderson (Chairman)		100%
Tim Elsigood		100%
David Morrison		100%
Ingeborg Oie		100%

Our meetings are regularly attended by the CEO, CFO, Head of Clinical Department/Deputy CEO, Head of Internal Audit, Head of Clinical Process Audit Unit and the Director of Legal. From time to time, other members of management are invited to attend meetings in order to provide a fuller picture and deeper level of insight into key issues and developments. In addition non-Committee Board members are also invited to attend.

At each meeting, the Clinical Quality and Safety Committee receives detailed reporting on clinical performance, the results of the latest internal audits and the audit plan and forward-looking priorities.

Meetings of the Clinical Quality and Safety 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.

Clinical Quality and Safety Committee activities in 2016

Good progress has been made in understanding our growing number of clinical facilities and by an extensive internal audit programme to understand where the Company can improve. I am pleased to say that the Clinical Process Audit Unit of the Internal Audit team undertook and reported to the Committee on audits including medical document maintenance processes, audit of patient referral management, controlled drugs management processes, audits in respect of regulatory compliance, deep dive audits in certain hospitals and follow-up audits of identified areas for improvement.

Additionally the Committee is kept informed on the Ministry of Health's regulatory visits, inspections and reports on the facilities of the Group. The Clinical Process Audit Unit of the Internal Audit team reports to the Committee on these matters and the Group's participation on these discussions with the Ministry of Health and audits arising from regulatory matters.

The Head of Clinical Department/Deputy CEO attended the Clinical Quality and Safety Committee meetings at least every quarter to inform the Committee of data points, on clinical governance and to keep the Committee appraised of any developments. His focus this year, in relation to clinical risks, has been on infection control and prevention, quality management and patient safety and the Clinical Department has launched a number of initiatives and reported on their progress and the goals achieved to the Committee.

The Committee has considered health and safety policies and procedures, advising on amendments to reflect best practices, standardisation across hospitals and units and changes in regulatory compliance.

The Group commissioned patient satisfaction surveys at a sample outpatient clinic using randomly selected participants and compared the results to a survey carried out in 2014. The Committee considered this a useful exercise as it was able to consider and understand the patient experience better, what was successful, whether patient expectation had evolved and where there may be potential for improvement.

Committee members also met with the heads of the following departments individually: Internal Medicine Department and Ambulatory Services, Quality Assurance and Analysis Division, Nursing, Maternal and Child Health, Emergency Care, Post Diploma Training and Accreditation and Laboratory and Transfusion. They also met with the Operations Team. This engagement gave the Committee a better understanding of how clinical governance works in these departments. The Committee heard about the impact, in practice, of the education and training programme, which helped the Committee to form views on how cross-departmental interactions of this expanding Group could be advanced.

Through formal communications, in the lead up to meetings and in meetings and ad hoc interactions, the Committee, believes that it has received sufficient, relevant and reliable information from management, internal audit and the clinical team to enable us to discharge our responsibilities.

Committee effectiveness review

Lintstock performed the effectiveness review of the Committee. The evaluation principally addressed the composition of the Committee, the testing of the work of Clinical Process Unit of the Internal Audit team, the assessment of internal controls and risk management related to clinical quality and health and safety as well as the division of responsibilities between the Clinical Quality and Safety Committee and the Audit Committee.

The evaluation concluded that the Committee operates and performs effectively.

Looking ahead to 2017

The Clinical Quality and Safety Committee considered its priorities for 2017 and its focus for the coming year is:

- Ensuring that the Group has the correct procedures and protocols for health and safety, in order to ensure a high quality service to patients and ensure the safety of all staff;
- Infection control initiatives and procedures;
- Implementing protocols in key clinical risk areas;
- Ensuring that effective and consistent drugs management controls are in place, both within hospitals and the Pharma businesses;
- Audit of our intensive care units in referral hospitals; and
- Continuation of our audit programme to ensure clinical process compliance with regulatory requirements.

The Committee will continue to meet ahead of the Board meetings to ensure a timely flow of information on clinical governance to the Board and so that the Committee can make its recommendations on any matters reserved to the Board in a timely manner.

Shareholder Engagement

The Company has a comprehensive shareholder engagement programme and maintains an open and transparent dialogue with existing and potential shareholders, a responsibility that the Company takes very seriously.

The Board's primary contact with institutional shareholders is through the Chairman, Senior Independent Non-Executive Director, CEO and Head of Investor Relations, each of whom provide a standing invitation to shareholders to meet and discuss any matters they wish to raise. Our Committee Chairmen also make themselves available to answer questions from investors.

We formally communicate with our shareholders via our AGM, Annual Report and Accounts, Half-Year Report and Interim Management Statements. These are supported by a combination of presentations and telephone briefings. Over the course of the year, we met with over 150 institutional investors, and participated in more than ten investor conferences and road shows around the world. Our Directors and management met with shareholders in the United Kingdom, Europe, the United States and South Africa.

In November 2016, GHG hosted an investor day in Tbilisi, which was open to all investors and analysts. This investor day provided the opportunity for investors to receive an update from the Board and executive management on strategy and performance as well as meet informally with Board members and raise matters of interest. GHG was pleased to host almost 50 analysts and investors at the investor day.

In addition to our shareholders, we meet and present to analysts throughout the year and hold regular meetings with the Group's existing lenders and actively engage with potential lenders to discuss our funding strategy. Our Group Company Secretary also has ongoing communication with the shareholders' advisory groups.

The Chairman has overall responsibility for ensuring that the Board understands the views of major stakeholders. The full Board is regularly kept informed of these views by the Chairman as well as executive management and the Investor Relations team and, to the extent deemed appropriate, issues raised at these meetings have been adopted by the Group. Informal feedback from analysts and the Group's corporate advisors is also shared with the Board.

Our website http://ghg.com.ge provides our stakeholders with access the Group's results, press releases, investor presentations, analyst reports, details on our corporate governance and corporate and social responsibility framework, 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.

Remuneration Report

Chairman's Overview

Dear Shareholders,

On behalf of the Board, I am pleased to present you with the Directors' Remuneration Report for the Group. At the 2016 AGM, our Directors Remuneration Report and Directors' Remuneration Policy ("Policy") were each approved by you and the latter was adopted for a three-year period from the date of the meeting. Your strong support – the shareholder vote was more than 96% in favour – affirmed that this is the right policy for our Group, striking a balance between rewarding achievement and aligning the interests of executive management with our shareholders to promote the long-term interests of the Group.

The structure is comprised of two core elements:

- salary compensation consisting of a modest cash sum and deferred shares that vest over a five-year period; and
- discretionary compensation payable entirely in deferred shares which vest over a three-year period. Discretionary compensation is dependent on both Group performance and on the executive achieving his or her KPIs in each financial year.

We pay no cash bonuses, which is another distinguishing feature of our structure, and in contrast to many other UK companies, the Group does not operate a long-term incentive plan ("LTIP"). As a very significant percentage of an executive's compensation is in the form of deferred shares with long vesting periods, executive management are continuously incentivised to create value for the long-term. The importance of creating sustainable long-term value guards against an executive taking risks that endanger our long-term stability.

Although members of executive management below the Board level are outside the scope of our Policy, we equally apply the structure of the Policy to them. The Policy supports our corporate culture which focuses executives on team performance that creates value (for both shareholders and the executives) when the Group succeeds over the long-term. Long-term value creation aligns directly with the interests our the shareholders. There have been no substantial changes to the directors' remuneration made during 2016.

In 2016, our CEO Nikoloz Gamkrelidze remained the sole Executive Director of our Group. We believe that the combination of the substantial number of deferred salary shares and the potential to earn discretionary deferred shares of a significant value continues to keep Mr Gamkrelidze (and our executive management team) highly motivated and aligned with shareholders.

One of the most important matters covered by the Remuneration Committee in 2016 was the consideration and award of discretionary deferred shares for Mr Gamkrelidze. The Remuneration Committee judged his performance to be excellent. In 2016, Mr Gamkrelidze met or exceeded most of his KPIs, which are set out in section 3.2 along with detail showing how he reached these targets.

Under Mr Gamkrelidze's direction, the Group achieved 16.3% organic growth alongside record revenue, driven by the acquisition of GPC, the third largest pharmaceutical retailer and wholesaler in Georgia. The successful integration of GPC, another of Mr Gamkrelidze's KPIs, has exceeded expectations to date in capturing synergies for the Group. In 2016, the Group signed a binding agreement to acquire ABC, the fourth largest pharmaceutical retailer. The acquisition of ABC was completed in January 2017 and the integration of the pharmaceutical businesses are underway. Mr Gamkrelidze's leadership in driving the Group's strategy and ambition positions GHG well for the future as the largest healthcare services provider in Georgia.

The Group also met its target of adding six ambulatory clusters in line with the strategy for outpatient services and added to the quality healthcare services it can offer its patients. Mr Gamkrelidze has also led a range of talent development and retention initiatives, from addition of new specialities and incentives in the residency programme through to the training of physicians, nurses and administrative employees at the EVEX learning centre. We particularly noted his launch of the leadership programme for mid-level managers, which requires a high degree of commitment from the Group and participants for their joint future.

Further important matters covered in 2016 by the Remuneration Committee include the evaluation of executive management performance and approval of discretionary share awards. The performance of the executive management team was vital to the success of the Group in 2016.

I would like to thank our Executive Director and the executive management team, and all of the Group's employees, for their hard work and dedication in making this such a successful year for the Group financially and also in shaping the Group for the future. I would also like to thank the shareholders for their support of our policy last year.

Neil Janin
Chairman of the Remuneration Committee
13 April 2017

What is in this report?

This Directors' Remuneration Report describes the implementation of GHG's Directors' Remuneration Policy and discloses the amounts earned relating to the year ended 31 December 2016.

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 report has been prepared in line with the recommendations of the Code and the requirements of the UKLA Listing Rules.

The Directors' Remuneration Policy was approved by shareholders in a binding vote at the 2016 AGM and took formal effect from the date of approval and will apply until the 2019 AGM, at which time we will be required to submit our Directors' Remuneration Policy for approval by shareholders. Our Directors' Remuneration Policy has again been included in this report (set out on pages 107 to 113) for the purposes of clarity and transparency.

The Annual Report on Remuneration (set out on pages 100 to 115) (which includes the Annual Statement by the Chairman of the Remuneration Committee set out on page 100) will be subject to an advisory vote at the 2017 AGM.

1. The Remuneration Committee and its advisors

The Remuneration Committee is principally responsible to the Board for establishing the remuneration policy for the Executive Directors, Chairman and designated members of executive management 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 last updated in March 2016 and are available on our website at http://ghg.com.ge/uploads/pages/remunerationcommitteetermsofreference69-4.pdf.

The Committee is comprised of three independent Non-Executive Directors and Irakli Gilauri. Irakli Gilauri serves as Chief Executive Officer of the Company's principal shareholder, BGEO Group PLC. As such, the Board does not consider Irakli Gilauri to be independent.

The members' attendance is during 2016 is provided below.

Member attendance	Number of meetings attended	% of meetings attended
Neil Janin (Chairman)		100%
Ingeborg Oie		100%
Tim Elsigood		100%
Irakli Gilauri		100%

In addition to the formal meetings held during the year, the Committee participated in various discussions by telephone outside of these meetings.

Other attendees at Committee meetings who provided advice or assistance to the Committee on remuneration matters from time to time included the CEO, the other Board members and the Director of Legal. Attendees at Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Committee received advice from Baker & McKenzie LLP, its legal advisors, on compliance and best practice.

2. Shareholder context and Remuneration Policy review

Our Directors' Remuneration Policy was first approved by shareholders at our AGM on 26 May 2016 (the "2016 Policy"). The Directors' Remuneration Report (including the 2016 Policy and the implementation report) received the following votes from shareholders:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Policy	119,630,433	96.85	3,894,806	3.15	123,525,239	0
Approval of the Directors' Remuneration Report	123,193,274	99.73	331,965	0.27	123,525,239	0

3. Directors' remuneration

3.1 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 2016 and 31 December 2015. For 2016, 82.3% of Mr Gamkrelidze's compensation as set out in the table below is in the form of deferred shares that have a vesting period of three or five years.

	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$
2016	**225,000**	**452,022**	**677,022**	**643,171**	**8,440**	**2,164**	**1,330,797**
2015	150,463	452,022	602,485	600,946	451	1,505	1,205,387

Notes:

1 Mr Gamkrelidze's service agreement commenced on 29 April 2015 and his cash salary in 2015 was paid pro rata. Cash salary is expressed in Dollars but paid in GBP and Lari as applicable, converted into the respective currency as described in Note 2 of the table in section 6.2 of the Policy. Accordingly, there may be variations in the numbers above and those provided in the accounts.

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 both 2016 and 2015, Mr Gamkrelidze was awarded 175,000 deferred share salary shares. The value attached to each GHG share 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 Dollars using an exchange rate of 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 is capped at 100% of total salary. For 2016, options were awarded over 141,981 GHG shares. The value of the discretionary deferred share compensation is calculated by reference to the share price on 28 February 2017, which was US$4.52998 (based on the official share price of GBP 3.64 per share converted into Dollars using an exchange rate of 1.2445, being the official exchange rate published by the Bank of England on the same date). For 2015, options were awarded over 237,500 GHG shares. The value of this discretionary deferred share compensation is calculated by reference to the share price on 15 February 2016 which was US$2.5303 (based on the official share price of GBP 1.7388 per share converted into Dollars using an exchange rate of 1.4552, being the official exchange rate published by the Bank of England on the same date). Discretionary compensation in respect of 2016 is subject to three-year straight line vesting beginning in January 2018, subject to the leaver provisions described in section 4.5(b) of the 2016 Policy. The means of determining the number of shares underlying this compensation and the terms and conditions are described in section 4.2(b) of the 2016 Policy. The basis for determining Mr Gamkrelidze's 2016 discretionary award is described in section 3.2 below.

4 Benefits. The figure shows the gross taxable value of health and disability insurance, Directors' and Officers' liability insurance and tax equalisation payments.

5 Pension. The figure shows the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme. Under the Group's defined pension scheme the normal retirement age is 65.

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, where final vesting is determined by reference to achievement of the performance measures or targets relating to a period ending in 2016.

Remuneration Report continued

The following table sets out details of total remuneration for the Chief Executive Officer, Mr Gamkrelidze, for the year ended 31 December 2016 and his discretionary compensation as a percentage of maximum opportunity.

	2015	**2016**
Single total figure of remuneration (US$)	1,205,387	**1,330,797**
Discretionary compensation as a percentage of maximum opportunity (%)	100	**95**

Notes:
1 Maximum opportunity is 100% of total salary (cash salary and deferred share salary). Total salary for 2016 and 2015 is set forth in the table above.

3.2 Basis for determining Mr Gamkrelidze's discretionary deferred share compensation
The number of discretionary deferred shares granted to Mr Gamkrelidze in a given year is dependent on both Group performance and his achievements of the KPIs set for him by the Remuneration Committee.

The following table details the KPIs set for Mr Gamkrelidze in respect of 2016, as well as his performance against these.

Key performance measure (KPI)	2016 target	2016 performance
Organic growth in healthcare	Meeting budget	Met target with 16.3% organic rate of healthcare services revenue
EBITDA margin in healthcare	On track for meeting 30% target in 2017	Achieved target a year early, delivering 30.2% healthcare services EBITDA margin, with 34% increase year-on-year in gross profit of and operating leverage positive at 17.5 percentage points year-on-year
Quality of care improvements	Delivery on strategy	Successfully delivered including the launch of 64 new services in 14 different hospitals in 2016
Delivery of two largest hospital capex projects	Substantially on schedule	Sunstone hospital ahead of schedule; Deka hospital on budget but has been delayed by three months due to permit issues that have now been resolved
Delivery of outpatient strategy	Minimum of six new clusters	Successfully delivered in line with strategy
Successful integration of the GPC pharma acquisition	Delivery on strategy	Exceeded expectations with GEL 6.3 million of cost synergies captured since the acquisition versus GEL 4.9 million initial guidance
Retention of healthcare insurance claims within EVEX	20%	23.3% retention – exceeded target %
Loss ratio of commissions	Meeting budget	The budget target was not achieved; a single important contract and legacy pricing have all slowed the turnaround
Talent development and retention	Delivery on strategy	Met expectations including introducing coaching and leadership programme

In addition to the KPIs listed in the table above, the Committee considers non-tangible factors such as leadership and forward-looking strategy development when determining Mr Gamkrelidze's discretionary compensation. Mr Gamkrelidze's KPIs largely track the Group's KPIs as he is expected to deliver on the Group's strategy, so that more information on the performance against the KPIs can be found in other sections of this Annual Report.

In respect of 2016, Mr Gamkrelidze met or exceeded most of his KPIs. The financials were very strong, with Mr Gamkrelidze reaching or exceeding all his financial targets except in insurance, where a changing market, a single important contract and legacy pricing have all slowed the hoped for turnaround in our smallest business segment.

Mr Gamkrelidze also delivered on the entirety of his challenging set of operational targets from the healthcare facilities and services rollout to the integration of our GPC pharma business. The sole missed target here was the Deka hospital renovation project which is delayed for reasons outside Mr Gamkrelidze's control.

And over and above the KPIs in the pharma business, Mr Gamkrelidze seized a key strategic opportunity with the ABC acquisition for which a binding agreement was signed in November 2016 (and which was successfully completed in early January 2017). This was a major project that the Board and the Committee are particularly pleased to have seen led to a successful conclusion.

On Mr Gamkrelidze's last KPI, GHG has launched a series of initiatives to ensure it attracts, retains and develops its talent.
- The Group has added seven new specialities offered in the residency programme, bringing the total number to 20 and added further incentives. The Group has also introduced a new share plan for doctors. The EVEX Learning Centre trained a total of 2,299 nurse-participants, 2,035 physicians and 937 administration employees.
- During the second half of the year GHG set a new incentive plan for the management of the pharmacy business, built around sales and efficiency KPIs, helping the Group increase revenue by 23.8% for the pharma business quarter-on-quarter.
- The Group offered executive coaching to top level management and in 2016 GHG launched an ambitious leadership programme for mid-level managers for which 25 managers (largely hospital CEOs) embarked on the first stage – a management course of 180 hours over five to six months.

As a result, the Committee determined that Mr Gamkrelidze's performance as excellent and determined that Mr Gamkrelidze should be awarded discretionary deferred share compensation of 141,981 shares valued at US$643,171. This amounted to 95% of his maximum opportunity. See section 4.2(b) of the Policy which describes why the Remuneration Committee steers away from strict weighting of the performance measures and the discretion it retains in respect of determining the number of discretionary deferred shares that may be granted.

For 2017, the Remuneration Committee plans to measure Mr Gamkrelidze's performance against KPIs which reflect the Group's strategy and priorities.

Healthcare

- Meeting budget for revenue, EBITDA and net profit.
- Delivery of the two large hospital capex projects.
- Delivery of the strategy in respect of new products and services.
- Quality of care improvements.
- Outpatient rollout – significant progress towards 2018 target of 15% share of healthcare revenues of the Group.
- Development of IT strategy and first steps on implementation.

Pharma

- Successful integration of the GPC and ABC acquisitions.
- Improved gross margins and EBITDA margins.
- Extraction of anticipated synergies.
- Progress on retention of pharma customers and expansion of loyalty platform.

Insurance

- Retention of claims within Evex.
- Improvement of combined ratio.

Group-wide

- Talent development and retention.
- Establishment and effective functioning of a new risk management function.
- Personal development of executive management including Mr Gamkrelidze himself.

3.3 Further details of fixed and discretionary contingent deferred share compensation granted during 2016 (audited)
The following table sets out details of the nil-cost options over GHG shares which have been granted to Mr Gamkrelidze in 2016 in respect of the year ended 31 December 2015.

	Deferred share salary	Discretionary deferred share compensation
Number of underlying shares and basis on which award was made	175,000 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/annualreports.	237,500 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/annualreports.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group	US$202,699[1]	US$600,946[2]
Face value	US$452,022[1] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).	US$600,946[2] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of the executive's salary set out in the service contract and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since the award is based on 2015 performance (and 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 make up the entirety of the Executive Director's performance-based compensation and so no payment is required upon exercise.
Vesting period	20% in each of 2017, 2018 and 2019 and 40% in 2020.	33% in each of 2017, 2018 and 2019.
Performance measures	None. See section 4.2(a) of the 2016 Policy available at http://ghg.com.ge/annualreports.	See section 3.2 above and section 4.2(b) of the 2016 Policy available at http://ghg.com.ge/annualreports.

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.
2 Figures calculated as described in Note 3 to the table in section 3.1.

Remuneration Report continued

3.4 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 2015 and 2016, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2015 and 2016. See section 3.1 for an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred compensation of Mr Gamkrelidze.

	Percentage change for the CEO between 2015 and 2016	Average percentage change for the Group's employees as a whole (excluding Mr Gamkrelidze) between 2015 and 2016
Total cash salary[1]	49.5%	20.8%
Total deferred share salary[2]	0%	0%
Taxable benefits[3]	1771.4%	54.9%
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)	7.0%	23.7%

Notes:
1 Figures calculated as described in Note 1 to the table in section 3.1, including that Mr Gamkrelidze's service agreement commenced on 29 April 2015 and his cash salary in 2015 was paid pro rata.
2 Figures calculated as described in Note 2 to the table in section 3.1.
3 In 2016, Mr Gamkrelidze's started to receive payments pursuant to his service agreement with the Company. The increase in benefits in 2016 reflects tax equalisation.

3.5 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 2016.

	Total fees (US$)	
	2016	2015
Irakli Gilauri	**–**	–
David Morrison	**156,000**	102,664
Neil Janin	**111,000**	89,706
Ingeborg Oie	**104,000**	84,450
Allan Hirst	**96,000**	84,706
Mike Anderson	**107,000**	88,373
Tim Elsigood	**126,000**	93,456
Jacques Richier	**107,000**	81,160
Total	**807,000**	624,515

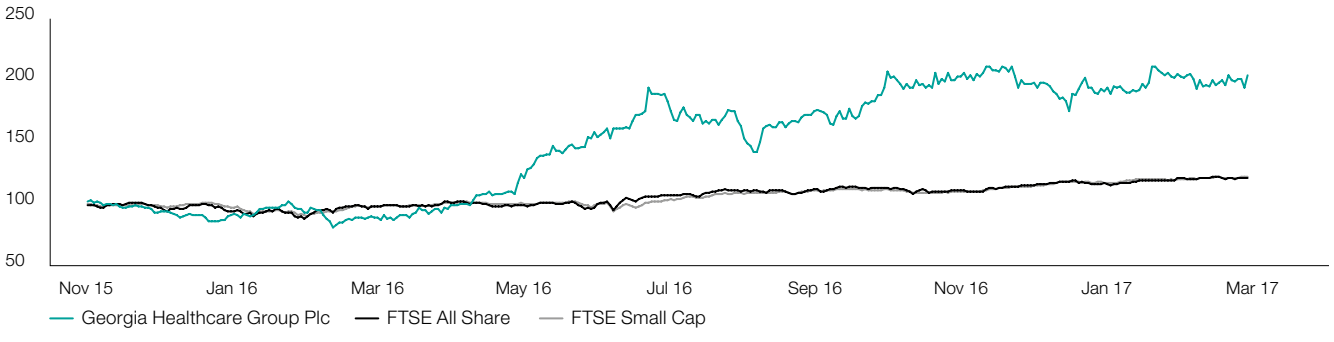
Notes:
1 Allan Hirst resigned as a member of the Board and Audit Committee from 17 December 2016.
2 Of the above 2016 remuneration, US$427,500 was paid by GHG PLC in respect of services provided to the Board and Board Committees, and US$379,500 was paid by JSC GHG in respect of services provided to the Supervisory Board and its Committees.

In accordance with the Articles of Association of GHG PLC, fees for Non-Executive Directors (as distinct from any salary, remuneration or other amount payable to a Director pursuant to other provisions of the Articles of Association or otherwise) 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.

3.6 Total Shareholder Return

Georgia Healthcare Group PLC TSR

The following graph compares the total shareholder return 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 March 2017. These comparators have been chosen on the basis that they are the markets within which GHG PLC operates.



Source: Thomson Reuters Datastream.

3.7 Relative importance of spend on pay

The following table shows the Company's actual spend on pay for all employees.

	Remuneration paid to all employees of the Group
Year ended 31 December 2015 (US$)	41,051,175
Year ended 31 December 2016 (US$)	49,960,569
Percentage change	21.7%

The increase in remuneration paid to all employees of the Group in the table above is primarily due to the acquisitions made by the Group and the associated head count increase.

3.8 Directors' interests in shares (audited)

The following table sets out each Director's interests in shares in the Company as at 31 December 2016.

	As at 31 December 2015				**As at 31 December 2016**			
	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]	117,500	–	412,500	530,000	**117,500**	**–**	**729,481**	**846,981**
Irakli Gilauri	411,700	N/A	N/A	411,700	**405,700**	**N/A**	**N/A**	**405,700**
David Morrison	116,600	N/A	N/A	116,600	**116,600**	**N/A**	**N/A**	**116,600**
Neil Janin	88,000	N/A	N/A	88,000	**88,000**	**N/A**	**N/A**	**88,000**
Allan Hirst	148,700	N/A	N/A	148,700	**148,700**	**N/A**	**N/A**	**148,700**
Ingeborg Oie	29,000	N/A	N/A	29,000	**29,000**	**N/A**	**N/A**	**29,000**
Tim Elsigood	14,700	N/A	N/A	14,700	14,700	**N/A**	**N/A**	**14,700**
Mike Anderson	11,500	N/A	N/A	11,500	**11,500**	**N/A**	**N/A**	**11,500**
Jacques Richier	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**

1 Mr Gamkrelidze's unvested and unexercised shares include all options granted in respect of the 2016 work year.

As at the date of this Report, Mr Gamkredlize's vested and unvested shareholding remains 846,981 GHG shares, representing approximately 0.64% of the share capital of GHG. The vesting period for the majority of unvested shares exceeds three years. None of Mr Gamkrelidze's connected persons have any interests in the shares of the Company.

The 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 (five years), will result in future years in executive management having large holdings of unvested shares. Accordingly, the Group does not apply a shareholding guideline or impose a holding period on Mr Gamkrelidze's or executive management's shares. The Policy naturally results in our 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 Management Association.

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. Save for Irakli Gilauri who sold 6,000 GHG shares earlier this year, there have been no other changes in the Non-Executive Directors' GHG shareholdings since 31 December 2015.

3.9 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 all current Non-Executive are effective from 4 September 2015 with each Non-Executive Director being put forward for election at each Annual General Meeting 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 Annual General Meeting.

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 Director will generally cease at the next upcoming Annual General Meeting.

Remuneration Report continued

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 Director on the Board beyond the relevant six-year period, the Board may offer the 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.

3.10 Consideration of shareholder views
The Remuneration Committee considers shareholder feedback received on our remuneration structure each year as well as guidance from shareholder representative bodies, as we view shareholder input as key when shaping our remuneration policy. In 2015 and, 2016, we met with a number of our significant shareholders to discuss our remuneration structure and engaged directly with several shareholder advisory groups. The feedback we received was positive and our shareholders were widely supportive of our executive remuneration structure, understanding that although it varies from a typical UK remuneration structure in that we do not operate an LTIP or give cash bonuses. The absence of cash bonuses and the dominance of deferred share compensation in the overall remuneration package creates a direct and natural alignment of shareholder and executive management interests.

3.11 Consideration of employment conditions elsewhere in the Group
When determining an Executive Director's remuneration, the Remuneration Committee considers: (i) the pay and employment conditions of executive management (other than Directors) and 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 the Human Resources department, executive management and other employees on the executive remuneration structure. In 2016, we also introduced a new share based compensation scheme for key doctors.

We frequently benchmark remuneration at all levels within the Group in order to ensure that our remuneration is competitive in order to attract the right candidates and remains competitive in order to motivate, satisfy and retain our talent. For a FTSE All-Share company of our size and depth, our Executive Directors must have the skills, experience, work ethic and attitude required to successfully execute our strategy, meet our objectives and create value for shareholders over the long term. In order to recruit and retain this talent, we must benchmark the value of remuneration against other FTSE companies of similar size and sector listed in the UK. Our Executives are not paid cash bonuses and therefore remuneration in the form of deferred shares will comprise by far the largest part of total remuneration.

The compensation of employees in the Group, other than Executive Directors, 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. Bonuses are usually paid in cash. The results of the 2016 survey conducted by the Human Resources department in respect of remuneration confirmed that employees are largely satisfied with their fixed compensation and bonus opportunity.

4. Shareholding of executive management

The following table sets forth the respective GHG shares held by a few members of our executive management team as at 31 December 2015 and 2016.

	As at 31 December 2015			**As at 31 December 2016**		
	Number of vested GHG Shares	Number of unvested GHG shares	Total vested and unvested GHG shares	**Number of vested GHG shares**	**Number of unvested GHG shares**	**Total vested and unvested GHG shares**
Irakli Gogia	9,400	–	9,400	**3,400**	**144,500**	**147,900**
David Vakhtangishvili	–	–	–	–	**151,000**	**151,000**
Giorgi Mindiashvili	–	–	–	–	**145,000**	**145,000**

As mentioned in the Chairman's Statement, the structure of the Policy as it applies to Mr Gamkrelidze equally applies to executive management. Each member of executive management listed above receives a modest cash salary, salary shares that vests over five years and the potential to earn discretionary deferred shares that vest over a three-year period.

The figures in the table above reflect deferred share salary and discretionary deferred shares granted in 2016 in respect of the 2015 work year. For each of Mr Gogia, Mr Vakhtangishvili and Mr Mindiashvili, deferred shares accounted for no less than 77.5% of total remuneration in 2015, The predominance of deferred shares defines our remuneration structure. Like Mr Gamkrelidze, executive management is focused on long-term value creation.

5. Committee effectiveness review

Lintstock also performed the effectiveness review of the Committee. The evaluation principally addressed the composition of the Committee, the structure and effectiveness of the Remuneration Policy as well as the performance evaluation process. The effectiveness evaluation concluded that the Committee continues to operate and perform effectively.

Our priorities for 2017 include:
- Integration of our pharma executive management into the structure of our Policy as it applies to executive management;
- Continued review of executive management performance against expanded self-development and mentoring KPIs; and
- Enhancement of the scope of management performance evaluations.

6. Directors' Remuneration Policy

Our Directors' Remuneration Policy was approved by our shareholders at the 2016 AGM. The approved Directors' Remuneration Policy (which has not been amended) is valid for three years from the date of the 2016 AGM and will not be presented to shareholders for approval at the 2017 AGM. In the pages that follow, we have provided the Directors' Remuneration Policy in order to provide context to the discussion of the implementation of the policy in the Directors' Remuneration Report on pages 107 to 113. Please refer to the 2016 Annual Report for the full text of the approved Directors' Remuneration Policy, which is also available on our website, http://ghg.com.ge/annualreports.

Information on how the policy will be implemented in 2017 is included on pages 113 and 115. There will be no significant changes between the Directors' Remuneration Policy and its implementation in 2017.

It is a provision of this Policy that the Group will honour all pre-existing obligations and commitments that were entered into prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.

6.1 Policy table

Component[1]	Purpose and link to strategy	Operation	Opportunity
Salary in the form of cash and deferred shares	**Cash salary** Modest yet sufficient to cover reasonable living expenses and, when combined with the other elements of the package, competitive enough to attract, retain and develop high-calibre talent. **Deferred share salary** Fixed compensation in the form of nil-cost options over GHG shares which vest over a five-year period. The long vesting period promotes the long-term success of the Group by closely aligning the Executive Director's and shareholders' interests. Cash salary is paid in part under the Executive Director's service contract with JSC GHG and in part under his service contract with GHG, to reflect the Executive Director's duties to each. Deferred share salary is paid under the Executive Director's service contract with JSC GHG.	**Cash salary** • Cash salary payable under the GHG contract is expressed in Dollars but paid in GBP on each monthly payment date[2]. • Cash salary payable under the service contract with JSC GHG is expressed in Dollars but paid in Lari on each monthly payment date[2]. **Deferred share salary** • Awarded annually over the number of GHG shares that is stated in the Executive Director's service contract with JSC GHG. • Awards are formally granted in January of the first year following the work year, and vest as to 20% in January of each of the second, third and fourth years following the work year, and as to 40% in January of the fifth year following the work year. • 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 (if any) on the underlying shares between the date the award was made and the vesting date[3]. • Unvested deferred share salary lapses upon termination by GHG or JSC GHG "for cause" or by the Director other than for "good reason" or if the Director does not remain employed by the Group or serve as a Director of a subsidiary of the Group (each as defined in the relevant service contract and explained, in the case of Mr Gamkrelidze, in section 6.4(b) below on pages 111 to 112). There is no provision for the recovery or withholding of cash or vested deferred share salary.	**Cash salary** The amount is fixed in the Executive Director's contract with GHG and, if applicable, with JSC GHG. The total amount payable to Mr Gamkrelidze under his current contracts is US$225,000. **Deferred share salary** The number of shares underlying each annual award is fixed for the duration of the Executive Director's contract with GHG or JSC GHG, as the case may be. The number of deferred share salary shares under Mr Gamkrelidze's current contract with JSC GHG is 175,000 per annum. The level of salary for an Executive Director is reviewed by the Remuneration Committee when the service contract is renewed. Renewal is due to take place in 2020.

Remuneration Report continued

Component[1]	Purpose and link to strategy	Operation	Opportunity
Discretionary deferred share compensation	Annual performance-based compensation paid entirely in the form of nil-cost options over GHG shares which vest over a three-year period. As with the deferred share salary, this promotes the Group's long-term success by closely aligning the Executive Director's and shareholders' interests. The Group pays no cash bonus to its Executive Directors and has no LTIP.	Awarded annually after the end of the work year in respect of which the award is made over a number of GHG shares that are determined annually 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 (see section 6.1(b) below). Awards vest as to 33.33% in January of each of the second, third and fourth years following the work year. 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 (if any) on the underlying shares between the date the award was made and the vesting date[3]. Unvested deferred share compensation lapses upon termination by GHG or JSC GHG "for cause" or by the Executive Director other than for "good reason" or if the Director does not remain employed by the Group (each as defined in the relevant service contract, as is explained for Mr Gamkrelidze in section 6.4(b) below). The Board has, however, reserved the right to permit unvested discretionary deferred shares to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group. If at any time after awarding discretionary deferred share compensation it has been determined that there was a material misstatement in the financial results for the financial year in respect of which the award was formally granted, the Board has the right to cause some or all of the award for that financial year or for any subsequent financial year that is unvested at the time of its determination, not to vest and to lapse.	Discretionary deferred share compensation is granted out of a pool of shares made available for such awards. The Remuneration Committee reserves the right to award no discretionary deferred share compensation if the Group's performance is unsatisfactory or if the Executive Director's performance is poor in light of the KPIs set by the Remuneration Committee for the Executive Director. For Mr Gamkrelidze, the maximum value of discretionary deferred share compensation that may be awarded in a given year for the remainder of his service contract with the Group is capped at 100% of total salary (see section 6.1(b) below). Discretionary deferred share compensation for any newly appointed Executive Director, other than Mr Gamkrelidze, will not comprise more than 125% of the Executive Director's total salary. However, the Remuneration Committee has reserved the right to increase the maximum discretionary deferred share compensation to 150% of the Executive Director's total salary for performance that has resulted in outstanding benefits for shareholders.

Component[1]	Purpose and link to strategy	Operation	Opportunity
Pension	The provision of retirement benefits helps to attract and retain high-calibre talent.	The Group operates a defined contribution pension scheme. The Executive Director and the Group each contribute a minimum of 1% of the Executive Director's gross monthly cash salary payable under his service contract with JSC GHG. There is no provision for the recovery or withholding of pension payments.	The Group will match in additional contributions in a proportion of 0.2 to one, up to a maximum additional Group contribution of 1% of gross monthly salary where the Executive Director makes additional contributions up to 5% of gross monthly salary.
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 health insurance, disability insurance, Directors' and officers' liability insurance and personal security arrangements (if requested by the Executive Director). A tax equalisation payment may be paid to an Executive Director if any part of his remuneration becomes subject to double taxation. There is no provision for the recovery or withholding of benefits.	There is no prescribed maximum on the value of benefits payable to an Executive Director. If the Executive Director's personal circumstances do not change and the Group is able to obtain benefits on substantially the same terms as at the date of the publication of this Policy, the aggregate cost of benefits for an Executive Director during the Policy's life is not expected to change materially.

Notes:
1 Under service contracts with GHG and/or JSC GHG (as applicable).
2 GHG cash salary is converted from Dollar to GBP at the exchange rate published by the Bank of England on each monthly payment date. JSC GHG cash salary is converted from Dollar to Lari at the exchange rate published by the National Bank of Georgia on each monthly payment date.
3 Dividend equivalents (if any) are paid in Lari as at the date dividends were paid to other shareholders.

a) Deferred share salary

The deferred share salary comprises the most important element of the Executive Director's fixed annual remuneration and is commensurate with his role within the Group. By heavily weighting base salary in favour of deferred share compensation rather than cash, Executive Director's day-to-day actions are geared towards sustained Group performance over the long term. The deferred share salary component is neither a bonus nor LTIP, it is salary fixed at the outset of each service contract and is therefore not subject to performance targets or measures. The salary increases or declines in value depending on Group performance over the four years following the work year, aligning the Executive Director's interests directly and naturally with those of the Group's shareholders.

b) Discretionary deferred share compensation

The Group does not operate an LTIP because it believes there is sufficient long-term incentive built into its deferred share salary and discretionary deferred share compensation. No cash bonuses are paid to the Executive Director. Instead, individual and Group performance is rewarded through an award of discretionary deferred share compensation that vests over the three years following the work year.

As discretionary deferred share compensation is awarded to reward past performance over the work year, it is not subject to any performance measures over the period from award to vesting. The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the Executive Director and the Executive Management as a whole is determined annually by the Remuneration Committee in its absolute discretion, based on a number of factors including:

- financial objectives;
- strategic objectives; and
- people and similar softer objectives.

The number of shares over which the Executive Director's discretionary deferred share compensation will be granted is determined by the Remuneration Committee by reference to the performance of the Group and the Executive Director's KPIs. These KPIs are set for the Executive Director by the Remuneration Committee at the start of the financial year and reflect the Executive Director's required contribution to the Group's overall key strategic and financial objectives for that financial year. See section 3.2 above for a description of the KPIs set for Mr Gamkrelidze in respect of 2016 and his performance against these, as well as the KPIs which have been set for him in respect of 2017.

Whilst the Remuneration Committee has defined the set of factors to be considered in determining the aggregate pool of discretionary deferred shares and evaluating an Executive Director's performance, it seeks to steer away from defining a series of narrow objectives for Executive Management and does not employ strict weighting of performance measures. A high level of discretion is intentionally maintained when determining the quantum of discretionary deferred shares awarded to the Executive Director even in a "good" year for the Executive Director (e.g. achievement of most of his KPIs). In a "bad" year for the Group (e.g. poor financial performance by it), the Executive Director could receive little or no discretionary share compensation.

Remuneration Report continued

As mentioned in the Policy table above, the maximum value of discretionary deferred share compensation that Mr Gamkrelidze may be awarded in a given year for the remainder of his service contract with the Group is capped at 100% of his total salary. For these purposes, total salary comprises the annual cash salary and the deferred salary shares provided for in Mr Gamkrelidze's service contract, the latter being valued, for the current service contract, by reference to the share price as of the date of admission to the London Stock Exchange, and for future service contracts, by reference to the share price as of the date of the contract.

c) Equity compensation trust

An equity compensation trust has been established for the purpose of satisfying deferred share salary and discretionary deferred share compensation in the form of nil-cost options awarded to any eligible executive. The trust was established in 2015. If GHG needs to issue new shares or repurchase shares, or a combination of both, in order to ensure that there is a sufficient number of shares committed to the trust in order to satisfy awards, the Group has committed to shareholders that new shares issued in satisfaction of deferred share compensation from the time of listing on the London Stock Exchange will not exceed 10% of GHG's ordinary share capital over any 10-year period.

d) Comparison with the remuneration policies for employees generally

The components of the remuneration package for Executive Directors (as provided for by the Policy) are broadly the same as those for non-Board members of the Executive Management. Other members of executive management and middle management receive their entire salary in cash and do not receive deferred share salary. Their bonuses may be either in the form of cash and/or shares which vest over a three-year period following the award. All other employees within the Group receive a cash salary and may be eligible to receive cash bonuses, portions of which may be deferred until the publication of the audited annual results for the work year and/or based on continuous employment with the Group. The deferred portion of the cash bonus may also be reduced if it is revealed, upon completion of the annual audit, that the annual results published by the department where the employee works were incorrect in any material respect. All employees receive a competitive benefit package in line with Georgian market practice and are entitled to participate in the pension scheme on the same terms as applicable to Executive Directors.

e) Business expenses

Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contract, on provision of valid receipts.

6.2 Elements of the Policy – Non-Executive Directors

In 2016, each member of the Board of GHG, with the exception of Mr Gamkrelidze, served as a member of the supervisory board of JSC GHG. Each member of the Board, with the exception of Mr Gilauri, received (in respect of their services to GHG) a base fee and was further remunerated for membership on the Audit, Remuneration, Nomination and Clinical Quality and Safety Committees, where applicable.

The Policy provides for a Non-Executive Director's remuneration package to be comprised of the following elements:

Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee	The fee for the GHG Board is competitive enough to attract and retain experienced individuals. 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 is reviewed every three years by the Remuneration Committee. The Remuneration Committee reserves the right, in its sole 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. The maximum aggregate GHG fees for all Non-Executive Directors which may be paid under GHG's Articles of Association is GBP 750,000.
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 is reviewed every three years by the Remuneration Committee.

Notes:

1 Non-Executive Directors did not receive any deferred share salary or discretionary deferred share compensation, pensions, benefits or any variable or performance-linked remuneration or incentives in 2016.

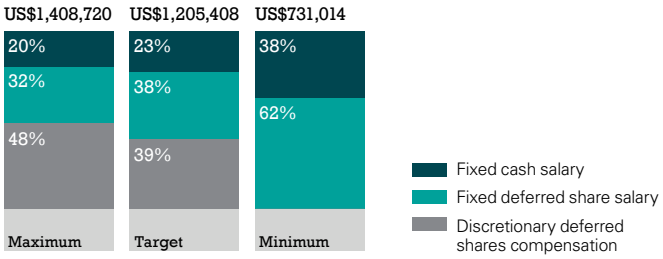
2 Non-Executive Directors are reimbursed for reasonable business expenses, including travel expenses, incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.

3 Non-Executive Directors who are appointed to the Board of the Company and/or to the supervisory board of JSC GHG by shareholders of the Company are required to waive any entitlements to fees which would otherwise be payable to them under the Policy for so long as they are appointees of a shareholder.

6.3 Total remuneration opportunity for our sole Executive Director

The chart below shows the remuneration which Mr Gamkrelidze, the sole Executive Director, could receive in respect of 2017 under the Policy at three different performance levels. It should be noted that, at the maximum level, 80% of Mr Gamkrelidze's 2017 compensation will be in the form of deferred shares for which the vesting period is either three or five years. At the minimum level, 62% of Mr Gamkrelidze's 2017 compensation will be in the form of deferred shares for which the average vesting period is either three or five years.

Total remuneration opportunity for our sole Executive Director



Notes:

1 Salary is comprised of cash, deferred share salary, benefits and pension contributions. Mr Gamkrelidze's total cash salary in 2017 in respect of both his service contract with GHG and JSC GHG will be US$225,000. Deferred share salary is calculated as described in Note 2 to table 3.1. Deferred share salary in respect of 2017 will be formally granted in January 2018 and will vest from January 2019 to January 2022. For the purpose of this chart, tax equalisation for the calendar year has been added and the value of pension and non-tax equalisation benefits for 2016 has been used as it is assumed the value will be substantially the same in 2017.

2 The means of determining the number of shares underlying the discretionary deferred share compensation and terms and conditions applying to this compensation are described in section 6.1(b). Discretionary deferred shares in respect of 2017 will be formally granted in January 2018 and will vest in January 2019, January 2020 and January 2021.

3 Minimum opportunity reflects a scenario whereby Mr Gamkrelidze receives only fixed remuneration, comprised of cash salary, deferred share salary, benefits and pension contributions and the Remuneration Committee considers that the Group's and/or the Director's performance in 2017 does not warrant any award of discretionary deferred share compensation.

4 On target opportunity reflects a scenario whereby Mr Gamkrelidze receives fixed remuneration (as described above) and assumes a discretionary deferred share compensation award at 70% of the maximum opportunity for Group and individual performance which is in line with the Group's expectation, which is excellent performance.

5 Maximum opportunity reflects a scenario whereby Mr Gamkrelidze receives fixed remuneration (as described above) and a discretionary deferred share compensation award of 100% of total salary (i.e. the Remuneration Committee considers that the Group's and the individual's performance in 2017 warrant the highest possible level of discretionary deferred share compensation).

6 The value of deferred shares does not take into account any increase or decrease in share price over the vesting period or dividend equivalents (if any) payable on vesting (upon exercise of the nil-cost options).

6.4 Payments for loss of office (audited)

From the date of listing up to the year end, no Executive Director left the Group and therefore no payments for loss of office were paid to, or receivable by, any Director.

Allan Hirst is the only non-Executive Director to have left the Group since the date of listing, Mr Hirst resigned effective 17 December 2016. He had given notice as per his Letter of Appointment and was paid pro-rata for the month of December.

The following paragraphs (a) and (b) describe the Group's policy for payments on termination of Mr Gamkrelidze's service contracts with GHG and JSC GHG. In 2016 and as at the date of this Annual Report, Mr Gamkrelidze is the sole Executive Director on the GHG Board. The Group's policy on payments for loss of office for Non-Executive Directors and its approach to payments for loss of office for future Executive and Non-Executive Directors is described in paragraph 6.5 below. The Directors' service contracts and letters of appointment are available for inspection by shareholders at the Company's registered office.

(a) Termination of GHG PLC service contract dated 1 March 2016 (effective on admission)

Mr Gamkrelidze's service contract with the Company is for an indefinite term (subject to annual re-election at the Annual General Meeting) and is terminable by either party on not less than four months' written notice. Where the service contract is terminated on notice the Company may put Mr Gamkrelidze on garden leave for some or all of the notice period and continue to pay his cash salary under the Company service contract provided that any accrued and unused holiday entitlement shall be deemed to be taken during the garden leave period.

The Company may terminate Mr Gamkrelidze's employment early with immediate effect and without notice and pay in lieu of notice in the case of, among other circumstances, his dishonesty, gross misconduct, conviction of an offence (other than traffic-related) or becoming of unsound mind.

The Company may also terminate the agreement with immediate effect by payment in lieu of notice, in which case the payment in lieu of notice shall be solely in respect of cash salary due under the Company's service contract as at the date of termination of employment.

Remuneration Report continued

(b) Termination of JSC GHG service agreement dated 29 April 2015

On 29 April 2015 the Group entered into a service contract with Mr Gamkrelidze. Neither party shall have the right to terminate the agreement prior to expiration of the employment term for any reason whatsoever, except for:

(i) termination by the Group for cause, which shall be on the basis of a written notice to the Chief Executive Officer and shall have immediate effect;

(ii) termination by the Group without cause, which shall be on the basis of a written notice to the Chief Executive Officer and shall have immediate effect; and

(iii) termination by the Chief Executive Officer upon serving three months' prior written notice. Unless otherwise agreed with the Board, the Chief Executive Officer will resign only upon expiration of this three-month notice period.

Separation payments

In the circumstances listed below where Mr Gamkrelidze's service contract is terminated, he is entitled only to accrued and unpaid cash salary and accrued but not yet paid business expenses, a leaving allowance and severance payment constituting the immediate monetary equivalent of no less than six months' base salary and any accrued but unpaid tranches of the cash bonus (if any) if termination is by the Company without cause. Mr Gamkrelidze is entitled to three months' base salary and any accrued but unpaid tranches of the cash bonus (if any) in the case of termination by Mr Gamkrelidze for good reason.

The aforementioned circumstances are:

- termination by the JSC GHG for "cause" (cause being defined as gross and wilful misconduct in the course of his duties having a material adverse effect on the Group, material repeated failure to perform his duties or breach of his obligations or conviction of a felony, among other circumstances);
- termination by reason of death or disability (in which case he receives life or disability insurance benefits); or
- termination by Mr Gamkrelidze other than for "good reason" (meaning uncorrected material breach of a material provision of the service contract by JSC GHG which is not cured within 30 days of Mr Gamkredlize serving notice of breach).

The Group may restrict Mr Gamkrelidze from being employed in the healthcare industry and/or providing consulting or similar services to a competing healthcare institution for a period of up to four months following the termination of his employment and will continue to pay him his full cash salary under the JSC GHG service contract as compensation for his unemployment during this period.

In addition, without the prior written consent of the Company, Mr Gamkrelidze shall not contact, deal with or solicit any customer or client of the Group with whom he has had any business dealings in the six months prior to the termination of his service contract, for the purpose of providing services similar to or in competition with those provided by the Company.

The garden leave and non-compete period does not in aggregate exceed six months.

Vesting and lapse of awards

If the agreement is terminated by the Company for cause, Mr Gamkrelidze terminates the agreement for any reason other than for good reason, upon the expiry of the agreement Mr Gamkrelidze does not accept a new service agreement upon substantially similar terms and/or Mr Gamkrelidze does not remain or immediately become an executive of another Group company as defined in his service agreement, then unless otherwise resolved by the Board, any unvested awarded deferred cash salary and discretionary deferred share compensation as at the date when the Executive ceases to be an "executive" shall lapse.

If the agreement is terminated without cause, upon the expiry of the agreement Mr Gamkrelidze is not offered a new service agreement upon substantially similar terms or Mr Gamkrelidze ceases to be an "executive" by reason of injury, disability, redundancy or retirement (at normal retirement age), then any unvested awarded deferred share salary and discretionary deferred share compensation as at the date when the Executive ceases to be an "executive" shall continue to vest in the normal way during the respective vesting period(s).

If before the end of the vesting period Mr Gamkrelidze ceases to be an "executive" by reason of death, Mr Gamkrelidze terminates the agreement for good reason or a change of control event occurs, then any unvested awarded deferred share salary and discretionary deferred share compensation shall vest immediately.

(c) Termination of Non-Executive Directors' appointment

Each Non-Executive Director is required to submit himself or herself for annual re-election at the Annual General Meeting. The letters of appointment with GHG for each Non-Executive Director are effective from 4 September 2015.

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 as 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.

6.5 Policy on the appointment of external hires and internal appointments

Any new Executive Director appointed to the Board would be paid no more than the Remuneration Committee considers reasonably necessary to attract a candidate with the relevant skills and experience. His or her remuneration package would comprise the components described in section 6.1 above. The Remuneration Committee may, in its discretion and taking into account the role assumed by the new Executive Director, vary the amount of any component in the package. This discretion will only be exercised to the extent required to facilitate the recruitment of the particular individual. In addition, the terms and conditions attaching to any component of the remuneration might be varied insofar as the Remuneration Committee considers it necessary or desirable to do so in all the circumstances.

Relocation support for an incoming Executive Director and, where relevant, his or her family, may be provided depending on the individual's circumstances. The Group has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.

Upon the recommendation of the Remuneration Committee, the Group may "buy out" incentive awards which were granted to an incoming Executive Director by a previous employer and which have been foregone. In these circumstances, the approach will be to match the estimated current value of the foregone awards by granting awards of deferred share compensation which vest over a similar period to the awards being bought out. The application of performance conditions and/or clawback provisions may also be considered, where appropriate. Such new awards may be granted in addition to any deferred share salary and discretionary deferred share compensation. Any payment upon termination of a new Executive Director's service contract would not exceed 12 months' cash salary under the relevant service contract, plus any accrued and unpaid cash salary, benefits and holiday pay and reimbursement of any business expenses. The Group may also continue to pay a former Executive Director his full cash salary for any period following the termination of his appointment during which he is prohibited from competing with the Group.

It is expected that the following vesting provisions will apply to deferred share compensation in the case of termination of a new Executive Director's service contract:

- Unvested deferred share compensation would lapse upon termination of the service contract by the Company or JSC GHG for cause, termination by the Executive Director other than for good reason or if the Executive Director's employment is terminated for any other reason and he/she is not offered continued membership of the GHG Board or JSC GHG's supervisory board.
- Unvested deferred share compensation would continue to vest in the normal way during the respective vesting period(s) upon termination by the Company or JSC GHG without cause, if the Executive Director's service contract expires and he/she is not offered a new service contract on substantially similar terms on expiration or if the Executive Director ceases to be an Executive Director by reason of injury, disability, redundancy or retirement (at normal retirement age).
- Unvested deferred share compensation would vest immediately upon death of the Executive Director, termination of the service contract by the Executive Director for good reason or a change of control.

Notwithstanding the above, the Board reserves the right to permit unvested deferred share compensation to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group.

Any new Non-Executive Director appointed to the Board would be paid no more than the Remuneration Committee considers reasonably necessary in light of market practice among other FTSE All Shares Index companies and the current remuneration of other Non-Executive Directors. His or her remuneration package would comprise the same components as the existing Non-Executive Directors.

If an existing employee of the Group is appointed as an Executive or Non-Executive Director, any obligation or commitment entered into with that individual prior to his/her appointment will be honoured by the Group in accordance with the terms of those obligations or commitments, even where they differ from the terms of the Policy.

6.6 Consideration of shareholder views and employment conditions elsewhere in the Group
In accordance with the statement in this section of the Annual Report 2015, the Remuneration Committee has taken into account shareholders views after the Annual General Meeting held on 26 May 2016 – please see sections 3.10 and 3.11 above.

6.7 Minor changes
The Committee may make minor amendments to the Policy set out in this report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for the amendment.

7. Statement of Implementation

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 to how it was implemented in this financial year.

Details of how the remuneration policy will be implemented for the 2017 financial year are set out below.

a) For Nikoloz Gamkrelidze
Fixed pay

Total cash salary (combined GHG and JSC GHG)	US$225,000
Total deferred share salary (JSC GHG)	US$452,022
Pension and other benefits	No change from the stated policy

Remuneration Report continued

2017 Discretionary deferred share compensation

Opportunity	Maximum 100% of total salary (including cash salary and deferred share salary).
Deferral terms	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 as to 33.33% in January of each of 2019, 2020 and 2021. At vesting (upon exercise of the nil-cost options), Nikoloz Gamkrelidze receives (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the date the award was made and the vesting date.
Performance measures and targets	For 2017, the Remuneration Committee has determined that the performance measures for 2017 will be based on the following KPIs. **Healthcare** • Meeting budget for revenue, EBITDA and net profit. • Delivery of the two large hospital capex projects. • Delivery of the strategy in respect of new products and services. • Quality of care improvements. • Outpatient rollout – significant progress towards 2018 target of 15% share of healthcare revenues of the Group. • Development of IT strategy and first steps on implementation. **Pharma** • Successful integration of the GPC and ABC acquisitions. • Improved gross margins and EBITDA margins. • Extraction of anticipated synergies. • Progress on retention of pharma customers and expansion of loyalty platform. **Insurance** • Retention of claims within Evex. • Improvement of combined ratio. **Group-wide** • Talent development and retention. • Establishment and effective functioning of a new risk management function. • Personal development of executive management including Mr Gamkrelidze himself.

Due to the potential impact on our commercial interests, annual bonus weightings and targets are considered commercially sensitive and will therefore be disclosed in the 2017 remuneration report following the completion of the financial year.

There are circumstances in which unvested compensation may lapse and narrow circumstances in which it may vest immediately, all as set out in the Policy.

If at any time after awarding discretionary deferred share compensation it has been determined that there was a material misstatement in the financial results for the financial year in respect of which the award was formally granted, the Board has the right to cause some or all of the award for that financial year or for any subsequent financial year that is unvested at the time of its determination, not to vest and to lapse, as set out in the Policy.

b) Non-executive Director Remuneration

The table below shows the fee structure for non-executive directors for 2017. Non-executive fees are determined by the Remuneration Committee.

Component Purpose and link to strategy Operation Opportunity	Component Purpose and link to strategy Operation Opportunity	Component Purpose and link to strategy Operation Opportunity	Component Purpose and link to strategy Operation Opportunity
Base cash fee	The fee for the GHG Board is competitive enough to attract and retain experienced individuals. 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 is reviewed every three years by the Remuneration Committee. The Remuneration Committee reserves the right, in its sole 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. The maximum aggregate GHG fees for all Non-Executive Directors which may be paid under GHG's Articles of Association is GBP 750,000.
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 is reviewed every three years by the Remuneration Committee.

Signed on behalf of the Board of Directors

Neil Janin
Chairman of the Remuneration Committee
13 April 2017

Statement of Directors' Responsibilities

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.

Statement of Directors' responsibilities

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 advisors; 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

Irakli Gilauri
Chairman
13 April 2017

Nikoloz Gamkrelidze
CEO
13 April 2017

Directors' Report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2016.

Strategic Report

The Strategic Report on pages 2 to 80 was approved by the Board of Directors on 13 April 2017 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 80 form the Management Report for the purposes of DTR 4.1.5 R.

Information contained elsewhere in the Annual Report

Information required to be part of 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 80
Going Concern Statement	Page 67
Viability Statement	Page 67
Risk Management	Pages 64 to 67
Principal Risks and Uncertainties	Pages 68 to 71
Directors' Governance Statement	Page 81
The Board of Directors	Pages 86 to 87
Nomination Committee Report	Pages 90 and 91
Audit Committee Report	Pages 92 to 96
Clinical Quality and Safety Committee Report	Pages 97 to 98
Greenhouse Gas Emissions	Page 63
Research and Development	Pages 61 and 62
Employee Matters	Pages 56 to 59
Environmental Matters	Pages 62 and 63
Share Capital	Note 24 on page 167
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 34 on pages 173 to 180

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/uploads/pages/ghgarticles69-66.pdf.

Share capital and rights attaching to the shares

Details of the movements in share capital during the year are provided in Note 24 to the consolidated financial statements on page 167 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. Such authority was given at the 2016 AGM but no purchases were made during this financial year.

At the 2016 AGM, the Directors were given the power to (a) allot shares up to a maximum nominal amount of GBP 438,939, representing approximately a third of the Company's issued share capital as at 31 March 2017, and (b) to allot equity securities up to an aggregate nominal amount of GBP 877,878, 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 2017 AGM 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;
- pursuant to the Group Share Dealing Code, whereby the Directors and designated employees require approval to deal in GHG's shares; 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.

All employees (including Directors) that are deemed by GHG to be insiders have complied with the Group's Securities Dealing Code. 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.

Directors' Report continued

Results and dividends

The Group made a profit before taxation of GEL 40.2 million (year ended 31 December 2015: GEL 23.6 million). The Group's profit after taxation for the year was GEL 61.3 million (year ended 31 December 2015: GEL 23.6 million). The normalised net profit for 2016 was GEL 39.6 million: for further explanation please refer to the overview of financial results on pages 72 to 80.

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 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 dividend to its shareholders.

GHG stated in its listing prospectus that it does not intend to pay dividends for the first two years following the admission of shares to listing.

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 2016. 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 duty under company law.

Directors' remuneration

Directors' fees are determined by the Board from time to time. The remuneration of our Directors' must be in accordance with the Directors' Remuneration Policy approved by our shareholders in 2016. The fees paid to the Non-Executive Directors in 2016 pursuant to their letters of appointment are shown on page 104. The fees paid to our sole Executive Director in 2016 pursuant to his service agreements with GHG are shown on pages 101 to 103.

Directors' interests

The Directors' beneficial interests in ordinary shares of GHG as at 31 December 2016 are shown on page 105.

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 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.

Related party disclosures

Details of related party disclosures are set out in Note 41 to the consolidated financial statements on page 182 of this Annual Report.

Significant agreements – change of control

On 23 October 2015, GHG entered into a Relationship Agreement with BGEO 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. 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 BGEO and its associates. The Relationship Agreement took effect on 12 November 2015 and will continue until the earlier of: (i) GHG shares ceasing to be admitted to listing on the Official List; and (ii) BGEO, together with its associates, ceasing to own or control (directly or indirectly) 20% or more of the voting share capital of GHG. If BGEO ceases to be a controlling shareholder (within the meaning of LR 6.1.2A of the Listing Rules), it may terminate the Relationship Agreement by giving one month's written notice to GHG.

Under the Relationship Agreement, for so long as BGEO and its associates together hold 20% or more of the voting share capital of GHG, BGEO and its associates shall amongst other things:

- conduct all transactions, agreements or arrangements entered into between: (i) BGEO 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 BGEO.

The Relationship Agreement entitles BGEO 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 BGEO 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 BGEO or its associates.

A copy of the Relationship Agreement is available to view at the Company's registered office.

At no time during 2016 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 significant agreements (apart from the Relationship Agreement) 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 of Georgia

We have our Group office in London, see page 186.

Payment of creditors

We value our suppliers and acknowledge the importance of paying invoices in an orderly and timely manner. It is the Group's practice to agree terms on an individual basis when entering into contracts and meet obligations accordingly. The Group does not follow any specific published code or standard on payment practice.

Employee disclosures

Our disclosures relating to the number of women in senior management, employee engagement and policies as well as human rights, including employment of the disabled, are included in "Employee matters" on pages 56 to 59.

Political donations

The Group did not make any political donations or expenditures during 2016.

Code of Conduct and ethics

The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of the business, supported by the Group's core values. The Code of Conduct 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 is available on our website: http://ghg.com.ge/uploads/pages/codeofconductandethics88-99.pdf.

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 2016. A description of changes in voting rights which have been notified to GHG for the period 1 January 2017 up to and including 31 March 2017 are in the notes disclosed below the table.

	As of 31 December 2016	
Shareholder	Number of voting rights	% of voting rights
JSC BGEO Investments	**85,631,820**	**65.03**
Wellington Management Company	**8,703,320**	**6.61**
T. Rowe Price	**6,836,308**	**5.19**

Sources: Dealogic, Computershare.

Notes:
1 JSC BGEO Investments disposed of 833,160 of shares via a private sale on an arms' length and on a commercial basis to Mr Enrico Beridze and Mr Mikheil Abramidze as announced on 20 March 2017. As at 31 March 2017 JSC BGEO Investments held 84,549,820 voting rights (64.21%).
2 As at 31 March 2017, Wellington Management company held 9,168,892 voting rights (6.96%).
3 As at 31 March 2017, T. Rowe Price held 6,617,729 voting rights (5.03%).

The respective regulatory filings by shareholders are available on the GHG website: http://ghg.com.ge/regulatoryannouncements and the London Stock Exchange website: http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Post balance sheet events

As announced on 6 January 2017, following the receipt of regulatory approval, the Group completed the acquisition of JSC ABC Pharmacia, the fourth largest pharmaceutical retailer and wholesaler in Georgia. Please also see page 183, Note 42 regarding Events After the Reporting Period in the Financial Statements.

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.

The Directors' Report on pages 117 to 119 was approved by the Board of Directors on 13 April 2017 and signed on its behalf:

By order of the Board

Kate Bennett Rea
on behalf of Sirius Compliance Solutions
Group Company Secretary
13 April 2017

Independent Auditor's Report

To the members of Georgia Healthcare Group PLC

Our opinion on the financial statements

In our opinion:

- Georgia Healthcare Group PLC's (the "Group") 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 2016 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 ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

What we have audited

Georgia Healthcare Group PLC's financial statements comprise:

Group	Company financial statements
– the consolidated statement of financial position	– the separate statement of financial position
– the consolidated statement of comprehensive income	– the separate statement of changes in equity
– the consolidated statement of changes in equity	– the separate statement of cash flows
– the consolidated statement of cash flows	– the related Notes 1 to 42 to the financial statements
– the related Notes 1 to 42 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Overview of our audit approach

Risk of material misstatement	Risk of fraud in recognition of healthcare and pharmaceutical revenue and gross premium written. Accounting and financial reporting of business combinations. Goodwill impairment testing. Valuation of hospitals and clinics and land and office buildings.
Audit scope	We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further six components. The components where we performed full or specific audit procedures accounted for more than 86% of the Group's profit before tax, revenue and total assets.
Materiality	Overall Group materiality is GEL 2.0 million which represents 5% of profit before income tax expense.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on this individual area.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of fraud in recognition of healthcare and pharmaceutical revenue and gross premium written. Revenue GEL 423.8 million, (2015: GEL 242.4 million). The Group is the largest healthcare provider in Georgia and has grown rapidly through a series of acquisitions. The Group's management may be under pressure to report strong financial performance in order to meet the expectations of internal and external stakeholders, including those arising from the IPO in 2015. Compensation tied to the performance of the Group may create an incentive for management to manipulate results. The acquisition of GPC during the year exposed the Group to new streams of revenue, including retail sales of pharmaceutical products, a customer loyalty programme and exchange transactions with other pharmaceutical companies. Judgment is required to be exercised by management in determining amounts recorded as revenue in respect of loyalty schemes and exchange transactions. As a consequence, there is a greater risk of misstatement in these balances, either by fraud or error, including through the potential override of controls by management. Refer to the Audit Committee Report (page 93); Accounting policies (page 143); and Notes 25, 26 and 27 of the Consolidated Financial Statements (pages 168 to 169).	• We obtained an understanding of the healthcare and pharmaceutical revenue and gross premiums written processes and assessed the design and operating effectiveness of key controls. • We performed substantive testing of healthcare and pharmaceutical revenue and gross premium written including key items testing, representative sampling, testing manual and topside adjustments and cut-off testing (by selecting a sample of transactions either side of year-end). • We performed procedures on contractual documentation for the sampled transactions to determine whether revenue had been recognised in accordance with the Group's accounting policies and IFRS, particularly in respect of pharmaceutical exchange transactions and the issuing and redemption of points under customer loyalty programmes. • We performed analytical procedures for healthcare and pharmaceutical revenue at legal entity level to consider unusual trends that could indicate material misstatements, including monthly fluctuations analysis and analysis of changes in key drivers of healthcare revenue, such as bed occupancy, number of patients and number of beds. • We performed journal entry testing in order to identify and test the risk of misstatement arising from management override of controls. • For insurance premiums, we recalculated the unearned premium reserve and related income statement accounts, and performed analytical reviews, including ratio analysis, trend analysis and prediction analysis. • We considered whether the presentation and disclosure of revenue in the financial statements is in accordance with relevant accounting standards.	Based on the results of our audit procedures, we concluded that the healthcare and pharmaceutical revenue and gross premium written for the year ended 31 December 2016 has been recognised in accordance with IFRS. In particular, exchange transactions and customer loyalty schemes have been accounted for in accordance with IAS18 and IFRIC13 respectively.

Independent Auditor's Report continued

Our assessment of risk of material misstatement (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting and financial reporting of business combinations. Total assets of acquired subsidiaries GEL 80.0 million (2015: GEL 139.9 million). In 2016 the Group acquired GPC and a number of other subsidiaries, and finalised the acquisition accounting for certain entities acquired in 2015, including LLC Deka and GNCo. It also obtained de-facto control over JSC Poti Central Clinical Hospital and LLC Emergency service. Full details of these acquisitions are set out in Note 5. There is a risk of error in the reporting for such acquisitions, particularly in identifying and valuing the assets acquired, consideration paid and non-controlling interest. The risk is increased in the areas requiring management judgment, which include the identification and valuation of intangible assets and the valuation of inventory and property and equipment. Judgment is also required in determining whether de-facto control has been obtained over businesses where legal ownership has not transferred to the Group. In addition, there is a risk of incomplete or inaccurate disclosures relating to the transactions. Refer to the Audit Committee Report (page 94); Accounting policies (page 137); and Note 5 of the Consolidated Financial Statements (page 149).	• We tested the methodology and assumptions behind the significant judgements involved in the determination of the fair values of the identifiable net assets acquired, consideration and non-controlling interest. In particular we used our real estate valuation specialists to assess whether the valuation of acquired hospital land and buildings was within a reasonable range of possible valuations. • By comparison to the requirements of IFRS and analysis of similar transactions in other markets, we challenged management as to whether they had properly identified intangible assets arising from the acquisition of GPC. • We tested on a sample basis the existence of acquired subsidiaries' assets and liabilities, including obtaining evidence of legal title to land and buildings. • We performed procedures to test that management had identified and fair valued liabilities and contingent liabilities at the dates of acquisition. • We obtained and tested the factual evidence of the Group obtaining de-facto control over JSC Poti Central Clinical Hospital and LLC Emergency service. • We checked the accuracy and completeness of the disclosures on business combinations, including those completed after the balance sheet date.	Based on the results of our audit procedures, we concluded that the accounting for GPC and other subsidiaries acquired in 2016 and the finalisation of acquisition accounting for entities acquired in 2015 was materially correct. We reported that we were satisfied that there are no material separately identifiable intangibles, arising from the GPC acquisition requiring recognition.
Goodwill impairment testing. Balance of GEL 54.7 million (2015: GEL 20.7 million). The Group carries a significant amount of goodwill on the balance sheet as a result of a number of acquisitions in 2016 and previous years. Under IFRS, the Group is required to test the amount of goodwill for impairment at least annually. The impairment tests were areas of our audit focus due to the complexity of the methodologies and need for management to make subjective judgments as to future market and economic developments and the performance of the business. Refer to the Audit Committee Report (page 94); Accounting policies (page 138); and Note 12 of the Consolidated Financial Statements (pages 162).	• We validated that the cash flow projections included in the annual goodwill impairment tests were consistent with the Group's business plans. • We critically assessed and tested the methodologies, judgments and assumptions involved in the impairment test, including external market growth expectations and discount rates, by comparing them to external and historical data and by analysing sensitivities in the Group's valuation model. • We included valuation experts in our team to assist with these procedures. We specifically focused on the sensitivity in the available headroom for the cash generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount, and assessed the historical accuracy of management's estimates. • We also assessed the adequacy of the disclosures (Note 12) in the financial statements.	We consider management's key assumptions used in the goodwill impairment test to be within a reasonable range. We concluded that the recoverable amount of goodwill exceeds its carrying amount and that there is no impairment requiring recognition.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of hospitals and clinics and land and office buildings. Balance of GEL 409.4 million, (2015: GEL 3.4 million). As set out in Note 11, during 2016 the Group adopted the revaluation model for the measurement of its hospitals and clinics. The Group appointed independent external valuers to perform a valuation of its land and office buildings, hospitals and clinics as at 1 July 2016. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate properties are located primarily in Georgia, where the secondary market is relatively illiquid. Although the valuations are performed by external, appropriately qualified valuers there remains a risk that individual assets might be inappropriately valued. Refer to the Audit Committee Report (page 94); Accounting policies (page 140); and Note 11 of the Consolidated Financial Statements (page 161).	We engaged our Real Estate specialists to evaluate the appropriateness of the Group's valuation of land and office buildings, hospitals and clinics, including the following: • we evaluated the competence, professional qualifications and objectivity of the external valuers engaged by the Group; • through reading the valuation reports and discussion with management and the valuers, we obtained an understanding of the objectives and scope of the valuers' work, the methods and assumptions that they had used and the conclusions that they had reached; • we challenged the methods and assumptions used in the valuation reports, including consideration as to whether there was contrary market intelligence that had not been taken into account in the valuers' analyses; and • we assessed the data, application of the methods and logic and reasoning applied by the valuers. To the extent possible we compared this information to norms and benchmarks in the Georgian market, although we noted that there is limited availability of transaction information against which to make such comparisons. • we ensured the appropriate recognition of the results of the valuations in accordance with IAS 16 Property, Plant and Equipment.	We concluded that the valuation of the total pool of assets was within a reasonable range of market values.

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, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

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 selected components covering entities within the UK and Georgia, which represent the principal business units within the Group.

The table below illustrates the coverage obtained from the work we performed:

	2016				2015			
	No.	**Revenue**	**Profit before tax**	**Total Assets**	No.	Revenue	Profit before tax	Total Assets
Full scope[1]	**4**	**29%**	**55%**	**49%**	3	46%	32%	44%
Specific scope[2]	**6**	**66%**	**40%**	**37%**	6	48%	56%	45%
Full and specific scope coverage	**10**	**95%**	**94%**	**86%**	9	94%	88%	89%
Remaining components[3]	**14**	**5%**	**6%**	**14%**	11	6%	12%	11%
Total reporting components	**24**	**100%**	**100%**	**100%**	20	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 (and in particular revenue) tested for the Group.
3 We performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Independent Auditor's Report continued

The scope of our audit (continued)

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 other EY global network firms operating under our instruction. For all four full scope components, audit procedures were performed directly by the primary audit team. For the two 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.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits the principal components of the Group. The Senior Statutory Auditor is based in the UK, but since Group management and operations reside in Georgia, the Group audit team operates as an integrated primary team including members from the UK, Georgia and Russia. 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 four times during the current year's audit and there was regular interaction between team members in each jurisdiction.

These visits involved discussing the audit approach with the Georgian primary team and the component teams and any issues arising from their work, as well as meeting with Group and local management. In addition, both London and Georgia based members of the primary team participated in planning and closing meetings and reviewed selected audit working papers. The primary team interacted regularly with the component teams where appropriate during various stages of 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 2.0 million (2015: GEL 1.2 million), which is 5% (2015: 5%) of profit before tax. We consider that this profit figure best represents the results of the operations of the Group and as such provides us with an appropriate basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

During the course of our audit, we reassessed initial materiality and made adjustments based on the final financial performance of the Group.

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% (2015: 50%) of our planning materiality, namely GEL 1.0 million (2015: GEL 0.6 million).

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 performance materiality allocated to components was GEL 0.4 million for full scope components and a range of GEL 0.2 million-0.5 million for specific scope components.

Reporting threshold
An amount below which identified misstatements are considered to be clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 0.1 million (2015: GEL 0.06 million), which is set at 5% (2015: 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.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 116, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Opinion 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; and
- 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.

Independent Auditor's Report continued

The scope of our audit (continued)

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. We are required 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.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the Directors' statement in relation to going concern, set out on page 67, and longer-term viability, set out on page 67; and • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation 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 disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the Directors' statement 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 12 months from the date of approval of the financial statements; and • the Directors' explanation 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.	We have nothing material to add or to draw attention to.

John Headley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 April 2017

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 website.
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 2016 (thousands of Georgian Lari)

	Notes	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	7	**5,179**	81,722
Amounts due from credit institutions	8	**13,863**	–
Prepayments		**315**	–
Investments in subsidiaries	1	**404,824**	331,947
Total assets		**424,181**	413,669
Liabilities			
Borrowings	17	**13,311**	–
Accounts payable		**487**	–
Accruals for employee compensation		**179**	–
Total liabilities		**13,977**	–
Equity			
Share capital	24	**4,784**	47,842
Additional paid-in capital	24	**–**	366,265
Retained earnings	24	**408,233**	–
Net loss for the year	24	**(2,813)**	(438)
Total equity		**410,204**	413,669
Total equity and liabilities		**424,181**	413,669

The financial statements on pages 128 to 183 were approved by the Board of Directors of Georgia Healthcare Group PLC on 13 April 2017 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
13 April 2017

Company registration number: 09752452

The accompanying notes on pages 135 to 183 form an integral part of these consolidated financial statements.

Separate statement of changes in equity

For the year ended 31 December 2016 (thousands of Georgian Lari)

	Notes	Attributable to the shareholders of the Company			
		Share capital	Additional paid-in capital	Retained earnings	Total equity
27 August 2015		–	–	–	–
Loss for the period		–	–	(438)	(438)
Total comprehensive income		–	–	(438)	(438)
Issue of share capital		33,769	156,212	–	189,981
Proceeds from IPO	24	14,073	219,902	–	233,975
Transaction costs recognised directly in equity		–	(9,849)	–	(9,849)
31 December 2015		47,842	366,265	(438)	413,669
Loss for the period		**–**	**–**	**(2,813)**	**(2,813)**
Total comprehensive income		**–**	**–**	**(2,813)**	**(2,813)**
Capital reduction	24	**(43,058)**	**(365,613)**	**408,671**	**–**
Transaction costs recognised directly in equity		**–**	**(652)**	**–**	**(652)**
31 December 2016		**4,784**	**–**	**405,420**	**410,204**

The accompanying notes on pages 135 to 183 form an integral part of these consolidated financial statements.

Separate statement of cash flows

For the year ended 31 December 2016 (thousands of Georgian Lari unless otherwise stated)

	Notes	31 December 2016	31 December 2015
Cash flows used in operating activities			
Salaries and other employee benefits paid		**(358)**	–
General and administrative expenses paid		**(742)**	–
Net cash flows used in operating activities		**(1,100)**	–
Cash flows used in investing activities			
Investments in subsidiaries		**(72,877)**	(142,147)
Placements of amounts due from credit institutions		**(13,335)**	–
Net cash used in investing activities		**(86,212)**	(142,147)
Cash flows from financing activities			
Proceeds from borrowings	17	**12,871**	181
Proceeds from IPO	24	**–**	233,975
IPO-related transaction costs		**(652)**	(9,849)
Net cash flows from financing activities		**12,219**	224,307
Effect of exchange rates changes on cash and cash equivalents		**(1,450)**	(438)
Net (decrease)/increase in cash and cash equivalents		**(76,543)**	81,722
Cash and cash equivalents, beginning		**81,722**	–
Cash and cash equivalents, end		**5,179**	81,722

The accompanying notes on pages 135 to 183 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2016 (thousands of Georgian Lari)

	Notes	31 December 2016	31 December 2015, as reclassified
Assets			
Cash and cash equivalents	7	**23,239**	145,153
Amounts due from credit institutions	8	**23,876**	12,245
Insurance premiums receivable	9	**24,207**	20,663
Receivables from healthcare services	10	**81,927**	65,863
Receivables from sales of pharmaceuticals		**5,105**	–
Investment in associate		**2,370**	–
Inventory		**54,920**	11,056
Prepayments	14	**30,518**	9,117
Property and equipment	11	**574,972**	444,718
Goodwill and other intangible assets	12	**70,339**	25,787
Current income tax assets		**2,511**	1,165
Deferred income tax assets	13	**309**	796
Other assets	15	**18,270**	21,717
Total assets		**912,563**	758,280
Liabilities			
Accounts payable	18	**64,367**	35,471
Accruals for employee compensation		**16,001**	17,679
Payables for share acquisitions	20	**8,407**	22,075
Insurance contract liabilities	16	**26,787**	21,351
Borrowings	17	**187,557**	117,225
Debt securities issued	19	**36,024**	35,537
Finance lease liabilities	21	**14,878**	–
Current income tax liabilities		**258**	5,228
Deferred income tax liabilities	13	**–**	19,306
Other liabilities	22	**16,252**	9,427
Total liabilities		**370,531**	283,299
Equity			
Share capital	24	**4,784**	47,842
Additional paid-in capital	24	**(200)**	332,180
Treasury shares	24	**(134)**	(1,272)
Other reserves	24	**4,822**	(15,289)
Retained earnings		**476,616**	55,520
Total equity attributable to shareholders of the Company		**485,888**	418,981
Non-controlling interests		**56,144**	56,000
Total equity		**542,032**	474,981
Total equity and liabilities		**912,563**	758,280

The financial statements on pages 128 to 183 were approved by the Board of Directors of Georgia Healthcare Group PLC on 13 April 2017 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
13 April 2017

Company registration number: 09752452

The accompanying notes on pages 135 to 183 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2016 (thousands of Georgian Lari)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015, as reclassified
Healthcare services revenue	25	**233,000**	183,992
Revenue from pharma	26	**129,649**	–
Net insurance premiums earned	27	**61,104**	58,369
Revenue		**423,753**	242,361
Cost of healthcare services	28	**(122,648)**	(103,054)
Cost of sales of pharmaceuticals	29	**(105,472)**	–
Cost of insurance services and agents' commissions	30	**(49,615)**	(46,178)
Costs of services		**(277,735)**	(149,232)
Gross profit		**146,018**	93,129
Other operating income	31	**3,009**	4,200
Salaries and other employee benefits	32	**(39,750)**	(26,515)
General and administrative expenses	33	**(27,853)**	(10,517)
Impairment of healthcare services, insurance premiums and other receivables	34	**(2,332)**	(3,448)
Other operating expenses		**(1,065)**	(710)
		(71,000)	(41,190)
EBITDA		**78,027**	56,139
Depreciation and amortisation	11,12	**(19,577)**	(12,665)
Interest income	35	**1,841**	2,678
Interest expense	35	**(15,577)**	(22,959)
Net (losses)/gains from foreign currencies		**(5,657)**	2,097
Net non-recurring income/(expense)	36	**1,118**	(1,682)
Profit before income tax expense		**40,175**	23,608
Income tax (expense)/benefit	13	**(2,836)**	9
Non-recurring income tax benefit	13	**23,992**	–
Profit for the year		**61,331**	23,617
Other comprehensive income to be reclassified to profit or loss in subsequent periods: revaluation of properties	11	**20,804**	–
Total comprehensive income for the year		**82,135**	23,617
Profit for the year attributable to:			
– shareholders of the Company		**50,203**	19,651
– non-controlling interests		**11,128**	3,966
Total comprehensive income for the year attributable to:			
– shareholders of the Company		**69,848**	19,651
– non-controlling interests		**12,287**	3,966
Earnings per share (profit for the year):			
– basic earnings per share	24	**0.39**	0.15
– diluted earnings per share	24	**0.38**	0.15
Earnings per share (total comprehensive income):			
– basic earnings per share	24	**0.55**	0.15
– diluted earnings per share	24	**0.53**	0.15

The accompanying notes on pages 135 to 183 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016 (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
1 January 2015		28,335	–	99,138	(16,543)	35,869	146,799	25,512	172,311
Profit for the year		–	–	–	–	19,651	19,651	3,966	23,617
Total comprehensive income		–	–	–	–	19,651	19,651	3,966	23,617
Non-controlling interests arising from business combinations	5	–	–	–	–	–	–	29,787	29,787
Acquisition of additional interest in existing subsidiaries	24	–	–	–	1,254	–	1,254	(3,265)	(2,011)
Proceeds from IPO	24	14,073	–	219,902	–	–	233,975	–	233,975
Transaction costs recognised directly in equity	24	–	–	(11,836)	–	–	(11,836)	–	(11,836)
Issue of treasury shares	24	1,272	(1,272)	–	–	–	–	–	–
Holding company establishment	24	(9,284)	–	9,284	–	–	–	–	–
Loan conversion	24	13,446	–	14,834	–	–	28,280	–	28,280
Share-based compensation		–	–	858	–	–	858	–	858
31 December 2015		47,842	(1,272)	332,180	(15,289)	55,520	418,981	56,000	474,981

	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**
1 January 2016		**47,842**	**(1,272)**	**332,180**	**(15,289)**	**55,520**	**418,981**	**56,000**	**474,981**
Profit for the year		**–**	**–**	**–**	**–**	**50,203**	**50,203**	**11,128**	**61,331**
Other comprehensive income		**–**	**–**	**–**	**19,645**	**–**	**19,645**	**1,159**	**20,804**
Total comprehensive income		**–**	**–**	**–**	**19,645**	**50,203**	**69,848**	**12,287**	**82,135**
Non-controlling interests arising from business combinations		**–**	**–**	**–**	**–**	**–**	**–**	**(1,025)**	**(1,025)**
Acquisition of additional interest in existing subsidiaries	24	**–**	**–**	**–**	**467**	**–**	**467**	**(11,118)**	**(10,651)**
Capital reduction	24	**(43,058)**	**1,145**	**(330,999)**	**(1)**	**370,893**	**(2,020)**	**–**	**(2,020)**
Purchase of treasury shares	24	**–**	**(7)**	**(2,303)**	**–**	**–**	**(2,310)**	**–**	**(2,310)**
Transaction costs recognised directly in equity	24	**–**	**–**	**(2,520)**	**–**	**–**	**(2,520)**	**–**	**(2,520)**
Share-based compensation		**–**	**–**	**3,442**	**–**	**–**	**3,442**	**–**	**3,442**
31 December 2016		**4,784**	**(134)**	**(200)**	**4,822**	**476,616**	**485,888**	**56,144**	**542,032**

The accompanying notes on pages 135 to 183 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016 (thousands of Georgian Lari unless otherwise stated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Healthcare services revenue received		**210,099**	167,043
Cost of healthcare services paid		**(136,218)**	(98,750)
Net insurance premiums received		**59,963**	56,828
Net insurance claims paid		**(38,042)**	(36,695)
Revenue from pharma received		**118,671**	–
Cost of sales of pharmaceuticals paid		**(99,595)**	–
Salaries and other employee benefits paid		**(40,328)**	(25,827)
General and administrative expenses paid		**(26,062)**	(12,301)
Acquisition costs paid		**(3,723)**	(2,300)
Other operating income received		**1,413**	1,840
Other operating expenses paid		**(1,219)**	(3,538)
Net cash flows from operating activities before income tax		**44,959**	46,300
Income tax paid		**(2,602)**	(932)
Net cash flows from operating activities		**42,357**	45,368
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired	5	**(50,058)**	(48,085)
Acquisition of additional interest in existing subsidiaries		**(2,472)**	(6,384)
Purchase of property and equipment		**(111,035)**	(69,607)
Purchase of intangible assets		**(4,343)**	(3,724)
Loans purchased		**(1,531)**	–
Interest income received		**918**	1,953
Withdrawals and redemptions of amounts due from credit institutions		**3,221**	15,537
Placements of amounts due from credit institutions		**(11,812)**	(12,146)
Proceeds from sale of property and equipment		**195**	2,474
Net cash used in investing activities		**(176,917)**	(119,982)
Cash flows from financing activities			
Proceeds from IPO	24	**–**	233,975
IPO-related transaction costs	24	**(2,520)**	(12,096)
Proceeds from debt securities issued	19	**–**	34,247
Repurchase of debt securities issued		**(3,497)**	–
Proceeds from borrowings		**133,332**	40,612
Repayment of borrowings		**(91,551)**	(95,839)
Purchase of treasury shares		**(2,333)**	–
Proceeds from derivative financial instruments		**–**	6,932
Interest expense paid		**(19,292)**	(24,555)
Net cash flows from financing activities		**14,139**	183,276
Effect of exchange rates changes on cash and cash equivalents		**(1,493)**	3,707
Net (decrease)/increase in cash and cash equivalents		**(121,914)**	112,369
Cash and cash equivalents, beginning	7	**145,153**	32,784
Cash and cash equivalents, end	7	**23,239**	145,153

The accompanying notes on pages 135 to 183 form an integral part of these consolidated financial statements.

Notes to consolidated financial statements

(thousands of Georgian Lari unless otherwise stated)

1. Background

In 2014 the JSC Insurance Company Aldagi ("Aldagi") and its subsidiaries ("Aldagi group") began a corporate reorganisation in order to separate the healthcare services and medical insurance business, from the property and casualty insurance business.

As at 1 August 2014, Aldagi's medical insurance business segment was separated and transferred to a newly established legal entity, JSC Insurance Company Imedi L ("Imedi L"). At the same time, healthcare providers included in the Aldagi group were transferred to a newly established holding company, JSC Medical Corporation EVEX ("EVEX").

Both Imedi L and EVEX have been ultimately owned by Bank of Georgia Holdings plc ("BGH") since the commencement of reorganisation, but did not represent a group of entities until 27 August 2015, when BGH established a holding company, Georgia Healthcare Group PLC ("GHG" or the "Group"), and transferred its shares in Imedi L and EVEX to GHG. BGH changed its name to BGEO Group PLC ("BGEO") in 2015.

Financial information related to the pre 27 August 2015 period has been prepared for GHG from the financial statements of the combined entities as if GHG had been established and the transfer of the BGH's shares in EVEX and Imedi L had been completed as at 31 December 2013.

As at 31 December 2016 and 31 December 2015 the ultimate parent of GHG is BGEO Group PLC ("BGEO"), incorporated in London, England. GHG's results are consolidated as part of BGEO's financial statements.

The Group's healthcare services business provides 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 pharma subsidiary, which was acquired in May 2016 (Note 5), offers a wide range of drugs as well as parapharmacy products.

In November 2015, Georgia Healthcare Group PLC, a public limited liability company newly incorporated in England, successfully placed its shares on the London Stock Exchange by way of a Premium Listing through an Initial Public Offering ("IPO"). The Offering comprised 38,681,820 shares equating to an offering size of approximately GBP 66 million, representing approximately 29% of GHG's share capital on Admission, excluding the Over-allotment Option. Citigroup Global Markets Limited was granted an over-allotment option exercised in November 2015 in respect of up to 3,868,180 shares, representing approximately 10% of the offering.

The legal address of GHG PLC is No. 84 Brook Str., London W1K 5EH, United Kingdom. Company registration number is 09752452.

As at 31 December 2016 and 31 December 2015 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 2016**	31 December 2015
BGEO Group PLC	**65%**	65%
T Rowe LTD	**5%**	5%
LGM Investments Ltd	**2%**	3%
Wellington Management Company	**7%**	3%
Others	**21%**	24%
Total	**100%**	100%

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

1. Background continued

The Group included the following subsidiaries and associates incorporated in Georgia:

Subsidiary	Ownership/Voting 31-Dec-2016	Ownership/Voting 31-Dec-2015	Industry	Date of incorporation	Date of acquisition	Legal address
JSC Georgia Healthcare Group	**100%**	100%	Healthcare	29-Apr-15	Not Applicable	40 Vazha-Pshavela Ave., Tbilisi, Georgia
JSC GPC	**100%**	–	Healthcare	19-Oct-95	4-May-16	Sanapiro Str. #6, Tbilisi, Georgia
JSC Insurance Company Imedi L	**100%**	100%	Insurance	1-Aug-14	31-Jul-14	3-5 Kazbegi Str., Tbilisi, Georgia
LLC Biznes Centri Kazbegze	**100%**	100%	Other	22-Jun-10	24-Aug-11	44 Al. Kazbegi Ave., Tbilisi, Georgia
JSC Medical Corporation EVEX	**100%**	100%	Healthcare	1-Aug-14	1-Aug-14	40 Vazha-Pshavela Ave., Tbilisi, Georgia
GNCo	**50%**	50%	Healthcare	4-Jun-01	5-Aug-2015	Chavchavadze Ave. N 16, Tbilisi, Georgia
LLC Nefrology Development Clinic Centre	**40%**	40%	Healthcare	28-Sep-10	5-Aug-2015	Tsinandali Str. N 9, Tbilisi, Georgia
High Technology Medical Centre, University Clinic	**50%**	50%	Healthcare	16-Apr-99	5-Aug-2015	Tsinandali Str. N 9, Tbilisi, Georgia
LLC Deka	**95%**	95%	Healthcare	12-Jan-12	30-Jun-15	Bakhtrioni Str. 8B, Tbilisi, Georgia
LLC Evex-Logistics	**100%**	100%	Healthcare	13-Feb-15	Not Applicable	40 Vazha-Pshavela Ave., Tbilisi, Georgia
LLC Paediatrical Institute, Centre of Allergy and Rheumatology	**100%**	100%	Healthcare	6-Mar-00	19-Feb-14	5 Lubliana Str. 5, Tbilisi, Georgia
LLC Referral Centre of Pathology	**100%**	100%	Healthcare	29-Dec-14	Not Applicable	40 Vazha-Pshavela Ave., Tbilisi, Georgia
JSC St. Nicholas Surgery Clinic	**93%**	93%	Healthcare	10-Nov-00	20-May-08	9 Paolo Iashvili Str., Kutaisi, Georgia
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	**67%**	67%	Healthcare	5-May-03	29-Nov-11	85 Djavakhishvili Str., Kutaisi, Georgia, 4600
LLC Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia	**67%**	67%	Healthcare	15-Oct-04	29-Nov-11	83 A Djavakhishvili Str., Kutaisi, Georgia
LLC Tskaltubo Regional Hospital	**67%**	67%	Healthcare	29-Sep-99	29-Nov-11	16 Eristavi Str., Tskhaltubo, Georgia
LLC Unimedi Achara	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12	40 Vazha-Pshavela Ave., Tbilisi, Georgia
LLC Unimedi Samtskhe	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12	40 Vazha-Pshavela Ave., Tbilisi, Georgia
LLC Unimedi Kakheti	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12	20 Chavchvadze Ave., Tbilisi, Georgia
NPO EVEX Learning Centre	**100%**	100%	Other	20-Dec-13	20-Dec-13	#83A, Javakhishvili Str., Tbilisi, Georgia
LLC M. Iashvili Children Central Hospital	**100%**	67%	Healthcare	3-May-11	19-Feb-14	2/6 Lubliana Str., Tbilisi, Georgia
LLC Catastrophe Medicine Paediatric Centre	**100%**	100%	Healthcare	18-Jun-13	1-Mar-15	U. Chkeidze Str. N 10, Tbilisi, Georgia
LLC Emergency Service*	**–**	–	Healthcare	28-Jul-09	20-May-16	#2, D. Uznadze Str. Tbilisi, Georgia
JSC Poti Central Clinical Hospital*	**–**	–	Healthcare	29-Oct-02	1-Jan-16	Guria Str. 171, Poti, Georgia
JSC Patgeo	**100%**	–	Healthcare	13-Jan-10	1-Aug-16	Mukhiani, II mcr. District, Building #22, 1a, Tbilisi, Georgia
JSC Pediatry	**76%**	–	Healthcare	5-Sep-03	6-Jul-16	U. Chkeidze Str. N 10, Tbilisi, Georgia

Associate	Ownership/Voting 31-Dec-2016	Ownership/Voting 31-Dec-2015	Industry	Date of incorporation	Date of acquisition	Legal address
LLC Geolab	**25%**	25%	Healthcare	3-May-11	5-Aug-2015	Tsinandali Str. N 9, Tbilisi, Georgia
LLC 5th Clinical Hospital	**35%**	–	Healthcare	16-Sep-99	4-May-16	Temka, XI mcr. Block 1, N 1/47, Tbilisi, Georgia

* The Group has de-facto control of the subsidiaries (Note 5).

2. Basis of preparation

Basis of preparation

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the stand-alone income statement of GHG 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. These policies have been consistently applied to all the periods presented, with exception of IAS 16 (refer to Note 11).

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and office buildings and hospitals and clinics classified as property and equipment 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 has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the approval of the financial statements. Furthermore, 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

During 2016 the Group reconsidered the presentation of its consolidated statement of financial position for the purpose of more accurate presentation of certain accounts stated in the table below. The presentation of comparative figures has been adjusted to conform to the presentation of the current period amounts:

Consolidated statement of financial position	As previously reported	Reclassification	As reclassified
Other assets	32,773	(11,056)	21,717
Inventory	–	11,056	11,056
Other liabilities	14,722	(5,295)	9,427
Accounts payable	30,176	5,295	35,471

Consolidated statement of comprehensive income	As previously reported	Reclassification	As reclassified
Net insurance premiums earned	55,073	3,296	58,369
Cost of insurance services and agents' commissions	–	46,178	46,178
Net insurance claims incurred	42,882	(42,882)	–

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 2015. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of GHG and its subsidiaries as at 31 December 2016. 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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

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 IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity. Refer to Note 20.

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.

Financial assets

Financial assets in the scope of IAS 39 are classified either as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, 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 Group does not have any financial assets designated as available-for-sale or at fair value through profit or loss.

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.

3. Summary of significant accounting policies continued

Financial assets continued

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 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 calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

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 provision 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 unearned premium 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 expected claims. The differences between the unearned premium reserves, loss provisions and the expected claims 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.

Fair value measurement

The Group revalues at fair value at each balance sheet date derivatives and hospitals and clinics, land and office buildings. If their fair value differs materially from carrying value. Fair values of financial instruments measured at amortised cost are disclosed in Note 40.

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

Property and equipment except for land and office buildings and hospitals and clinics are 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.

Included in hospitals and clinics category are buildings and related land in which referral hospitals, community hospitals and ambulatory clinics are placed.

The carrying values of property and equipment 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 an expense.

Following initial recognition at cost, land and office buildings and hospitals and clinics are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough (market value changes are monitored at least once in a year) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity in other reserves. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in other reserves in equity.

3. Summary of significant accounting policies continued

Property and equipment continued

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. 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

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 general and administrative 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.

Assets 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 incurred in construction. 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.

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.

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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Taxation continued

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 or sale, its intention to complete and its ability to use or sell 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 BGEO or GHG. Share-based compensation plans announced by BGEO and GHG represent equity-settled transactions. Share-based compensation plans are recognised as equity by crediting directly to 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.

Equity

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 before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Income and expense recognition

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as loans and receivables, 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.

3. Summary of significant accounting policies continued

Income and expense recognition continued

Healthcare services revenue and revenue from pharma

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. 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). Proposed corrections and rebates are identified by the customers (mostly by the State) only upon or subsequent to the official act of acceptance for the invoices submitted by the Group. The proposed corrections are further discussed by the Group with the respective counterparties and either agreed upon and recognised or further disputed, sometimes through litigation. Corrections and rebates may arise only subsequent to official submission of the invoice by the Group and the official acceptance of the invoice by the counterparty. 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.

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 the State – The Group recognises the revenue from the individuals who are insured under the State programmes based on the 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 based on the 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 the revenue from non-insured individuals based on the 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 from pharma comprises the fair value of the consideration received or receivable both from wholesale and retail sales and drug exchange transactions. The pharma business sometimes receives drugs in exchange for sale of drugs from other wholesalers. 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 pharma business are treated as deferred revenue and recognised in revenues gradually as they are earned. 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 liability in the statement of financial position and are only recognised in revenues when points are used by customers.

Hedge accounting

The Group has adopted fair value hedge accounting in accordance with IAS 39 for foreign exchange component of two of its fixed assets. IAS 39.82 allows hedging of non-financial items either: (a) for foreign currency risks, or (b) in its entirety for all risks. Due to strong a correlation between real estate prices in Lari terms and Dollar-GEL exchange rates published by the National Bank of Georgia, holding other factors constant, we designated Dollar 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 hedge is found to be effective any increase (decrease) in the value of hedged real estate caused by changes in Dollar exchange rate will be offset by an equivalent increase (decrease) of Dollar 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 2016 fair value of financial instruments designated as hedging instruments equalled GEL 15,629. We also considered IFRS 9 requirements below.

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 drugs calculated using First-In First-Out ("FIFO") 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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

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.

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 2016 and 31 December 2015 were 2.6468 and 2.3949 Georgian Lari to 1 Dollar, respectively.

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 intends to adopt these standards, if applicable, when they become effective (apart from IFRS 15 which the Group intends to adopt starting 1 January 2017).

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. These amendments are expected to have an impact on the Group given the extent of financial assets and liabilities currently carried at amortised cost.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity due to the relatively short-term nature of its receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

3. Summary of significant accounting policies continued

New and amended standards and interpretations continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised 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.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to early adopt the new standard starting 1 January 2017 using modified retrospective application method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis.

(a) Revenue from sales of pharmaceuticals and Revenue from healthcare services

The accounting for pharma contracts with wholesale customers in which drugs sale is the only performance obligation is not expected to change as a result of IFRS 15. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In applying IFRS 15, the Group considered the following:

(i) Variable consideration

Invoices sent to state and insurance companies are subject to follow up from counterparties that have a predetermined period to correct invoices in case of any substantive or technical errors. Currently, the Group recognises the effect of corrections and rebates when it receives corrected invoices. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. Due to the provisions of IFRS 15, invoice corrections fall under the definition of variable consideration under IFRS 15, and will be required to be estimated at contract inception. Due to the fact that corrected invoices are sometimes received with a three-month lag, estimation is a necessary. The Group estimates the 2017 year impact to be approximately GEL 1,049.

(ii) Warranty obligations

Due to the nature of its business activities, the Group does not provide any warranties to clients.

(iii) Loyalty points programme (Zgarbi)

The Group determines that the loyalty programme offered within the pharma business gives rise to a separate performance obligation because it provides a material right to the customer. Thus, it will need to allocate a portion of the transaction price to the loyalty programme based on relative stand-alone selling price. The Group believes that the current accounting treatment applied to the customer loyalty programme is substantially in line with IFRS 15 requirements. The Group is still analysing contracts with customers that have such elements and will need to perform further assessments in the future to quantify the financial impact to its financial statements.

(b) Rendering of services

The Group provides healthcare services to clients. The Group has assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group does not expect any significant impact to arise from these service contracts as a result of IFRS 15.

(c) Equipment received from customers

When an entity receives, or expects to receive, non-cash consideration, IFRS 15 requires that the fair value of the non-cash consideration is included in the transaction price. An entity would have to measure the fair value of the non-cash consideration in accordance with IFRS 13 Fair Value Measurement. The Group's pharma business sometimes receives drugs in exchange for sale of drugs from other wholesalers (so called "netting"). The consideration received is assessed with reference to its actual wholesale price. This is consistent with the requirements of IFRS 15 and therefore the Group does not expect IFRS 15 to have any significant impact in this area.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

New and amended standards and interpretations continued

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For Government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they are required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments did not have any impact on the Group's consolidated financial statements.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements; and
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

3. Summary of significant accounting policies continued

New and amended standards and interpretations continued

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. This amendment did not have any impact on the Group.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. This amendment did not have any impact on the Group.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent Annual Report. This amendment must be applied retrospectively. This amendment did not have any impact on the Group.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, Government bond rates must be used. This amendment must be applied prospectively. This amendment did not have any impact on 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 judgment 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 judgments and estimates related to goodwill impairment test are presented in Note 12.

Impairment of receivables from healthcare services

The impairment provision for receivables from 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. Key criteria 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 an 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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

4. Significant accounting judgments and estimates continued

Impairment of receivables from healthcare services continued

For collective assessment purposes the management judgment 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.

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 2016 was GEL 11,030 (2015: GEL 7,829). Refer to Note 10.

Valuation of real estate

The fair value of real estate included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the so called sales comparison method. The Group performs valuation of its office buildings and hospitals and clinics once in every three years, unless there is a sign of material change in fair values on the market. First time valuation of hospitals and clinics was performed on 1 July 2016 by Georgian Valuation Company. Results of this valuation are presented in Note 11, while valuation inputs and techniques are presented in Note 40. The estimates described above are subject to change as new transaction data and market evidence become available.

Impairment of insurance premiums receivable

The Group regularly reviews its insurance premiums receivable to assess impairment. For accounting purposes, the Group uses an incurred loss model for the recognition of losses on the impaired insurance premiums receivable. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. The model for identification of the impaired amounts and their further provisioning is mostly based on the number of days in arrears and is very similar to the model used for the analysis and impairment of the receivables from healthcare services described above.

For collective assessment purposes management's judgment 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. For specific assessment purposes the management takes into account financial performance including key ratios and the cash position of the counterparty.

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 insurance premiums receivable as at 31 December 2016 was GEL 2,519 (2015: GEL 2,692). Refer to Notes 9 and 34.

Current income tax recognition

The current income tax charge is calculated in accordance with Georgian legislation enacted or substantively enacted by the reporting date. Reinvestment of profits in the medical business is free from taxation in accordance with Georgian tax legislation. Judgment is applied to assess and determine the portion of the current year profit that the Group will reinvest in its core economical activities during the next three years. The probable future reinvestment amount of current year profit is based on the medium-term business plan (three years following the current year) prepared by the management. Further details on taxation are disclosed in Note 13.

Claims liability 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 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 claims incurred but not yet reported as at 31 December 2016 was GEL 1,790 (2015: GEL 1,650). Refer to Note 16.

5. Business combinations

Acquisitions in year ended 31 December 2016

JSC GPC

On 4 May 2016 JSC GHG ("Acquirer"), a wholly owned subsidiary of the Group, acquired 100% of the shares of JSC GPC ("GPC"), a pharmaceuticals company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of GPC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	1,455
Receivables from sales of pharmaceuticals[1]	6,641
Inventory	30,329
Investment in associate	2,116
Property and equipment	8,105
Intangible assets	861
Current income tax assets	352
Deferred income tax assets	200
Prepayments	1,978
Other assets	2,594
Total assets	**54,631**
Liabilities	
Borrowings	15,198
Accounts payable	31,524
Accruals for employee compensation	1,331
Other liabilities	4,722
Total liabilities	**52,775**
Total identifiable net assets	**1,856**
Non-controlling interests	–
Goodwill arising on acquisition	29,025
Consideration[2]	**30,881**

1 The fair value of the receivables from sales of pharmaceuticals amounted to GEL 7,885. The gross amount of receivables is GEL 10,884. GEL 2,999 of the receivables has been impaired.

2 Consideration comprised GEL 30,881, which consists of cash payment of GEL 26,686 and a holdback amount with a fair value of GEL 4,195.

Net cash outflow for the acquisition was as follows:

Cash paid	26,686
Cash acquired with the subsidiary	(1,455)
Net cash outflow	**25,231**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by entering the pharmaceuticals segment through the acquisition of GPC. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, GPC has recorded GEL 133,002 and GEL 1,924 of revenue and profit, respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 199,916 and GEL 1,705, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 490,667 and GEL 61,112 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognised on a stand-alone balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business combinations continued

Acquisitions in year ended 31 December 2016 continued

LLC Emergency Service

On 20 May 2016 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, obtained de-facto control of LLC Emergency Service ("ES"), a healthcare company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of ES as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	6
Receivables from healthcare services[1]	418
Inventory	1
Property and equipment	637
Total assets	**1,062**
Liabilities	
Borrowings	137
Accounts payable	344
Accruals for employee compensation	198
Total liabilities	**679**
Total identifiable net assets	**383**
Non-controlling interests	–
Goodwill arising on acquisition	2,467
Consideration[2]	**2,850**

1 The fair value of the receivables from healthcare services amounted to GEL 418. The gross amount of receivables is GEL 555. GEL 137 of the receivables has been impaired.
2 Consideration comprised GEL 2,850, of which GEL 500 has been already paid and remaining amount is due within three years.

Net cash outflow for the acquisition was as follows:

Cash paid	500
Cash acquired with the subsidiary	(6)
Net cash outflow	**494**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring ES. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, ES has recorded GEL 2,588 and GEL 481 of revenue and profit, respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 4,077 and GEL 654, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 425,242 and GEL 61,504 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognised on a stand-alone balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by the code. Such amortisation is fully deductible for tax purposes.

5. Business combinations continued

Acquisitions in year ended 31 December 2016 continued

JSC Poti Central Clinical Hospital

On 1 January 2016 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, obtained de-facto control of JSC Poti Central Clinical Hospital ("Poti"), a healthcare company operating in Georgia from local companies. The fair values of identifiable assets and liabilities of Poti as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	11
Receivables from healthcare services[1]	595
Inventory	71
Property and equipment	14,539
Intangible assets	3
Prepayments	3
Other assets	91
Total assets	**15,313**
Liabilities	
Accounts payable	3,647
Accruals for employee compensation	183
Deferred income tax liabilities	1,385
Total liabilities	**5,215**
Total identifiable net assets	**10,098**
Non-controlling interests	–
Goodwill arising on acquisition[2]	–
Consideration[3]	**6,892**

1 The fair value of the receivables from healthcare services amounted to GEL 595. The gross amount of receivables is GEL 647. GEL 52 of the receivables has been impaired.
2 Prior to acquisition, the owners of Poti encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase of GEL 3,206. The gain is included in net non-recurring income (Note 36).
3 Consideration comprises of pre-existing loans to Poti and LLC Block Georgia.

Net cash outflow for the acquisition was as follows:

Cash paid	–
Cash acquired with the subsidiary	11
Net cash inflow	**11**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Poti. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Poti has recorded GEL 2,582 and GEL 3,135 of revenue and profit, respectively. The profit includes a non-recurring gain of GEL 1,657 resulting from a change in Georgian tax code.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business combinations continued

Acquisitions in year ended 31 December 2016 continued

JSC Pediatry

On 6 July 2016 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group acquired 76% of JSC Pediatry ("Pediatry") shares from individual investors and signed a contract, which mandates purchase of remaining 24% shares. Pediatry is a healthcare company operating in Georgia. The fair values of identifiable assets and liabilities of Pediatry as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	14
Receivables from healthcare services[1]	303
Inventory	4
Property and equipment	402
Intangible assets	15
Total assets	**738**
Liabilities	
Accounts payable	62
Accruals for employee compensation	101
Current income tax liabilities	67
Other liabilities	24
Total liabilities	**254**
Total identifiable net assets	**484**
Non-controlling interests	–
Goodwill arising on acquisition	963
Consideration[2]	**1,447**

1 The fair value of the receivables from healthcare services amounted to GEL 303. The gross amount of receivables is GEL 541. GEL 238 of the receivables has been impaired.

2 Consideration comprised GEL 1,447, which consists of cash payment of GEL 1,100 and a holdback amount with a fair value of GEL 347.

Net cash outflow for the acquisition was as follows:

Cash paid	1,100
Cash acquired with the subsidiary	(14)
Net cash outflow	**1,086**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Pediatry. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Pediatry has recorded GEL 886 and GEL 121 of revenue and profit, respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 1,764 and GEL 237, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 424,631 and GEL 61,447 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognised on a stand-alone balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

5. Business combinations continued

Acquisitions in year ended 31 December 2016 continued

LTD Patgeo

On 1 August 2016 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group acquired 100% of LTD Patgeo ("Patgeo"), a healthcare company operating in Georgia from individual investors. The provisional fair values of identifiable assets and liabilities of Patgeo as at the date of acquisition were:

	Provisional fair value recognised on acquisition
Assets	
Cash and cash equivalents	43
Receivables from healthcare services[1]	119
Inventory	36
Property and equipment	28
Other assets	2
Total assets	**228**
Liabilities	
Accounts payable	33
Accruals for employee compensation	30
Current income tax liabilities	25
Other liabilities	34
Total liabilities	**122**
Total identifiable net assets	**106**
Non-controlling interests	–
Goodwill arising on acquisition	694
Consideration[2]	**800**

1 The fair value of the receivables from healthcare services amounted to GEL 119. The gross amount of receivables is GEL 263. GEL 144 of the receivables has been impaired.
2 Consideration comprised cash payment of GEL 800.

Net cash outflow for the acquisition was as follows:

Cash paid	800
Cash acquired with the subsidiary	(43)
Net cash outflow	**757**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Patgeo. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Patgeo has recorded GEL 718 and GEL 114 of revenue and profit, respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 1,716 and GEL 262, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 424,751 and GEL 61,479 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognised on a stand-alone balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

The net assets presented above are estimated provisionally as at the issue date. The Group continues a thorough full examination of these net assets and if identified, proper adjustments will be made to the net assets and amount of the goodwill during the 12-month period from the acquisition date, as allowed by IFRS 3 "Business Combinations".

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business combinations continued

Acquisitions in year ended 31 December 2016 continued

LLC Deka

On 30 June 2015 JSC Medical Corporation EVEX ("Acquirer"), a wholly-owned subsidiary of the Group, acquired 95% of the shares of LLC Deka ("Deka"), a healthcare company operating in Georgia from individual investors. The fair values of identifiable assets and liabilities of Deka as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	89
Property and equipment	43,814
Other assets[1]	219
Total assets	**44,122**
Liabilities	
Borrowings	54
Accounts payable	1,283
Accruals for employee compensation	135
Current income tax liabilities	483
Deferred income tax liabilities	6,198
Total liabilities	**8,153**
Total identifiable net assets	**35,969**
Non-controlling interests	1,768
Goodwill arising on acquisition[2]	–
Consideration[3]	**28,842**

1 The fair value of the receivables from healthcare services amounted to GEL 0. The gross amount of receivables is GEL 395 which has been fully impaired.
2 Prior to acquisition, the owners of Deka encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase of GEL 5,359. The gain is included in net non-recurring income (Note 35).
3 Consideration comprised GEL 28,842, which consists of cash payment of GEL 28,280 and a holdback amount with a fair value of GEL 562.

Net cash outflow for the acquisition was as follows:

Cash paid	28,280
Cash acquired with the subsidiary	(89)
Net cash outflow	**28,191**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring Deka. Management considers that the deal will have a positive impact on the value of the Group.

In full-year 2015, since acquisition, Deka has recorded GEL 1,089 and GEL 193 of revenue and profit, respectively. Full-year revenue and profit of the acquired entity were GEL 2,289 and GEL 313, respectively. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 240,265 and GEL 23,737 of revenue and profit, respectively.

The Group has elected to measure the non-controlling interests in Deka at the non-controlling interests' proportionate share of Deka's identifiable net assets.

As at 31 December 2015 the net assets as well as the amount of gain on bargain purchase were estimated provisionally as allowed by IFRS 3 "Business Combinations". During the year ended 31 December 2016 the Group completed a full examination of the net assets. As a result, a positive adjustment to carrying value of non-controlling interest was made, amounting to GEL 280.

5. Business combinations continued

Acquisitions in year ended 31 December 2016 continued

LLC Catastrophe Medicine Paediatric Centre

On 1 March 2015 JSC Medical Corporation EVEX, a wholly-owned subsidiary of the Group, acquired 100% share in LLC Catastrophe Medicine Paediatric Centre ("EMC"), a healthcare company operating in Georgia from individual investors. The fair values of identifiable assets and liabilities of EMC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	25
Receivables from healthcare services[1]	111
Property and equipment	104
Other assets	7
Total assets	**247**
Liabilities	
Accounts payable	7
Accruals for employee compensation	51
Other liabilities	58
Total liabilities	**116**
Total identifiable net assets	**131**
Non-controlling interests	–
Goodwill arising on acquisition	869
Consideration[2]	**1,000**

1 The fair value of the receivables from healthcare services amounted to GEL 111. The gross amount of receivables is GEL 111 no receivables have been impaired.
2 Consideration comprised GEL 1,000 which was fully paid in cash.

Net cash inflow for the acquisition was as follows:

Cash paid	1,000
Cash acquired with the subsidiary	(25)
Net cash outflow	**975**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring EMC. Management considers that the deal will have a positive impact on the value of the Group.

In full-year 2015, since acquisition, EMC has recorded GEL 2,309 and GEL 406 of revenue and profit, respectively. Full-year revenue and profit of the acquired entity were GEL 2,769 and GEL 486 respectively. If the combination had taken place at the beginning of the 2015 year, the Group would have recorded GEL 239,525 and GEL 23,697 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognised on a stand-alone balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by the code. Such amortisation is fully deductible for the purposes.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business combinations continued

Acquisitions in year ended 31 December 2016 continued

GNCo

On 5 August 2015 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, acquired 50% of the shares of GNCo ("GNCo"), with effective management and operational control over the company, a healthcare company operating in Georgia from individual investors. The fair values of identifiable assets and liabilities of GNCo as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	427
Receivables from healthcare services[1]	8,210
Prepayments	1,828
Property and equipment	83,570
Intangible assets	16
Other assets	1,464
Total assets	**95,515**
Liabilities	
Borrowings	15,624
Accounts payable	11,215
Accruals for employee compensation	5,372
Deferred income tax liabilities	6,257
Other liabilities	3,132
Total liabilities	**41,600**
Total identifiable net assets	**53,915**
Non-controlling interests	27,212
Goodwill arising on acquisition	12,282
Consideration[2]	**38,985**

1 The fair value of the receivables from healthcare services amounted to GEL 8,210. The gross amount of receivables is GEL 17,765. GEL 9,555 of the receivables has been impaired.

2 Consideration comprised GEL 38,985, which consists of cash payment of GEL 19,346 and a holdback amount with a fair value of GEL 21,513 (the two figures do not add up to total consideration amount as of acquisition date due to fluctuation of foreign exchange rate between acquisition date and reporting date).

Net cash outflow for the acquisition was as follows:

Cash paid	19,346
Cash acquired with the subsidiary	(427)
Net cash outflow	**18,919**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring GNCo. Management considers that the deal will have a positive impact on the value of the Group.

In full-year 2015, since acquisition, GNCo has recorded GEL 16,584 and GEL 2,226 of revenue and profit, respectively. Full-year revenue and profit of the acquired entity were GEL 40,807 and GEL 5,319 respectively. If the combination had taken place at the beginning of the 2015 year, the Group would have recorded GEL 263,288 and GEL 26,710 of revenue and profit, respectively.

The Group has elected to measure the non-controlling interests in GNCo at the non-controlling interests' proportionate share of GNCo's identifiable net assets. The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognised on a stand-alone balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

As at 31 December 2015 the net assets as well as the amount of goodwill were estimated provisionally as allowed by IFRS 3 "Business Combinations". During the year ended 31 December 2016 the Group completed a full examination of the net assets. As a result, positive adjustment to carrying value of goodwill was made, amounting to GEL 853.

6. Segment information

For management purposes, the Group is organised into three operating segments based on the products and services – Healthcare services, Pharma and Medical insurance. All revenues, expenses, assets and liabilities of the Group arise in Georgia.

Healthcare services are the inpatient and outpatient medical services delivered by the referral hospitals, community hospitals and ambulatory clinics owned by the Group throughout the whole Georgian territory. The Company's and corporate centre costs are included in the healthcare services segment since the segment represents the main driver of the costs from the viewpoint of corporate centre resource consumption.

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 Group's wholly owned subsidiary Imedi L.

Pharma comprises a wide range of drugs and parapharmacy products which are offered through a chain of well-developed drug stores by the Group's wholly-owned subsidiary JSC GPC.

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.

Transactions between operating segments are on an arm's length basis as with transactions with third parties.

More than 50% 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 year ended 31 December 2016 or 31 December 2015.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

6. 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 2016				
	Healthcare Services	Pharma	Medical Insurance	Intersegment transactions and consolidation	Total
Healthcare services revenue	243,453	–	–	(10,453)	233,000
Revenue from pharma	–	133,002	–	(3,353)	129,649
Net insurance premiums earned	–	–	61,494	(390)	61,104
Revenue	243,453	133,002	61,494	(14,196)	423,753
Cost of healthcare services	(130,369)	–	–	7,721	(122,648)
Cost of sales of pharmaceuticals	–	(105,472)	–	–	(105,472)
Cost of insurance services and agents' commissions	–	–	(55,772)	6,157	(49,615)
Costs of services	(130,369)	(105,472)	(55,772)	13,878	(277,735)
Gross profit	113,084	27,530	5,722	(318)	146,018
Other operating income	2,059	925	87	(62)	3,009
Salaries and other employee benefits	(24,048)	(11,357)	(4,663)	318	(39,750)
General and administrative expenses	(13,920)	(11,277)	(2,656)	–	(27,853)
Impairment of healthcare services, insurance premiums and other receivables	(1,881)	–	(451)	–	(2,332)
Other operating expenses	(974)	(85)	(68)	62	(1,065)
	(40,823)	(22,719)	(7,838)	380	(71,000)
EBITDA	74,320	5,736	(2,029)	–	78,027
Depreciation and amortisation	(18,287)	(447)	(843)	–	(19,577)
Interest income	1,301	–	1,114	(574)	1,841
Interest expense	(13,499)	(1,602)	(882)	406	(15,577)
Net (losses)/gains from foreign currencies	(4,270)	(1,277)	(110)	–	(5,657)
Net non-recurring income/(expense)	2,883	(88)	(1,677)	–	1,118
Profit before income tax expense	42,448	2,322	(4,427)	(168)	40,175
Income tax benefit (expense)/income	(2,936)	(198)	298	–	(2,836)
Non-recurring income tax benefit/(expense)	24,990	(200)	(798)	–	23,992
Profit for the year	64,502	1,924	(4,927)	(168)	61,331
Other comprehensive income to be reclassified to profit or loss in subsequent periods: revaluation of properties	20,804	–	–	–	20,804
Total comprehensive income for the year	85,306	1,924	(4,927)	(168)	82,135
Assets and liabilities					
Total assets	767,249	63,479	61,667	20,168	912,563
Total liabilities	271,142	59,972	48,274	(8,857)	370,531
Other segment information					
Property and equipment	560,407	9,003	5,562	–	574,972
Intangible assets	12,289	783	2,552	–	15,624

6. Segment information continued

	Year ended 31 December 2015			
	Healthcare Services	Medical Insurance	Intersegment transactions and consolidation	Total
Healthcare services revenue	191,424	–	(7,432)	183,992
Net insurance premiums earned	–	58,552	(183)	58,369
Revenue	191,424	58,552	(7,615)	242,361
Cost of healthcare services	(107,291)	–	4,237	(103,054)
Cost of insurance services and agents' commissions	–	(49,372)	3,194	(46,178)
Costs of services	(107,291)	(49,372)	7,431	(149,232)
Gross profit	84,133	9,180	(184)	93,129
Other operating income	4,101	120	(21)	4,200
Salaries and other employee benefits	(23,075)	(3,642)	202	(26,515)
General and administrative expenses	(7,860)	(2,660)	3	(10,517)
Impairment of healthcare services, insurance premiums and other receivables	(3,140)	(308)	–	(3,448)
Other operating expenses	(633)	(77)	–	(710)
	(34,708)	(6,687)	205	(41,190)
EBITDA	53,526	2,613	–	56,139
Depreciation and amortisation	(11,973)	(692)	–	(12,665)
Interest income	959	2,248	(529)	2,678
Interest expense	(21,311)	(2,177)	529	(22,959)
Net gains from foreign currencies	1,312	785	–	2,097
Net non-recurring expense	(960)	(722)	–	(1,682)
Profit before income tax expense	21,553	2,055	–	23,608
Income tax benefit/(expense)	307	(298)	–	9
Profit and total comprehensive income for the year	21,860	1,757	–	23,617
Assets and liabilities				
Total assets	703,309	67,371	(12,400)	758,280
Total liabilities	247,762	47,937	(12,400)	283,299
Other segment information				
Property and equipment	439,131	5,587	–	444,718
Intangible assets	2,457	2,617	–	5,074

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2016	31 December 2015
Current and on-demand accounts with banks	**22,604**	145,095
Cash on hand	**635**	58
Total cash and cash equivalents	**23,239**	145,153

Cash and cash equivalents of Imedi L on a stand-alone basis are GEL 4,362 (2015: GEL 6,069). The requirement of the Insurance State Supervision Service of Georgia ("ISSSG") 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 ISSSG regulatory reserve requirement resolution, which as at the reporting date amounts to GEL 701 (2015: GEL 957). 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 5,179 (2015: GEL 81,722).

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2016	31 December 2015
Time deposits with banks, foreign currency	**22,832**	6,203
Time deposits with banks, local currency	**1,044**	6,042
Total amounts due from credit institutions	**23,876**	12,245

As at 31 December 2016 amounts due from credit institutions are represented by short (remaining maturity from reporting date of one to 12 months) and medium-term placements with banks and earn annual interest of 1.45% to 8.5% (2015: 1.11% to 14.1%). As at 31 December 2016 amounts due from credit institutions include GEL 2,357 (2015: GEL 2,142) of restricted cash under the export facility agreement with ING Bank N.V. The Company's amounts due from credit institutions comprise deposits with banks of GEL 13,863 (2015: GEL 0).

9. Insurance premiums receivables

Insurance premiums receivables comprise:

	31 December 2016	31 December 2015
Insurance premiums receivable from policyholders	**26,726**	23,355
Less – Allowance for impairment (Note 34)	**(2,519)**	(2,692)
Total insurance premiums receivables, net	**24,207**	20,663

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2016 and 31 December 2015.

10. Receivables from healthcare services

Receivables from healthcare services comprise:

	31 December 2016	31 December 2015
Receivables from the State	**71,343**	58,126
Receivables from individuals and other	**20,824**	8,797
Receivables from insurance companies	**790**	6,769
	92,957	73,692
Less – Allowance for impairment	**(11,030)**	(7,829)
Total receivables from healthcare services, net	**81,927**	65,863

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2016 and 31 December 2015.

The Group's largest receivable is from the State, representing amounts receivable under the Universal Healthcare Programme ("UHC") introduced by the State in March 2013. Through the UHC, the State provides basic healthcare coverage to the entire population, including more than two million people who previously lacked any medical insurance and purchased healthcare services only on an out-of-pocket basis. Currently fully operational, the implementation of UHC took place in several stages:

- March 2013. Urgent in-patient and limited out-patient healthcare was offered free of charge for individuals who were previously not covered by the State or private insurance programmes (accounting for approximately two million people, including children above the age of six and adults);
- July 2013. UHC was extended to cover intensive therapy, planned surgeries, treatment of oncology diseases (including radiotherapy, chemotherapy and hormone therapy) as well as childbirth expenses;
- April 2014. UHC superseded the State Insurance Programme ("SIP") – the first of two existing State insurance programmes that had provided healthcare coverage to "economically vulnerable" citizens since 2007; and
- September 2014. UHC superseded the second SIP (under the Decree N°165) that covered pensioners, children under six and students.

A summary description of UHC is as follows:

- UHC is fully financed by the Georgian Government and administered by the Social Service Agency. In most cases beneficiaries have an annual limit of GEL 15,000 per incident. This threshold limits the services to which a patient can have access, resulting in the need for co-payment for most critical elective services;
- UHC beneficiaries are eligible to select a healthcare provider of their choice, as long as it is enrolled in the programme;
- any provider, private or public, is eligible to participate in the programme; and
- the actual prices that are charged to patients by healthcare providers are not regulated by the State. However, the reimbursement scheme (i.e. the amount paid by the State to healthcare providers) differs depending on the type of services:
  - the capitation method is used for elective outpatient services;
  - emergency medical care tariffs are based on the minimum historic prices under the previous State medical insurance programmes, with the possibility of changes over time; and
  - for elective in-patient services, the amount reimbursed by the State is based on the average of the lowest 25th percentile of the prices charged by countrywide providers, with the patient making a co-payment for any excess charges.

10. Receivables from healthcare services continued

The UHC reimbursement scheme for the selected services in Georgia is as follows:

Service	Reimbursement from the State
Scheduled ambulatory service	70%
Service of a family doctor and basic laboratory tests	100%
Emergency in-patient services	70-100% with a limit for a single accident of GEL 15,000
Scheduled surgeries and associated tests	70%; annual limit – GEL 15,000
Treatment of oncology diseases	80%; annual limit – GEL 12,000
Childbirth	500 GEL; caesarean section – GEL 800

11. 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 2015	2,031	209,265	7,947	4,241	49,016	2,762	1,300	4,373	280,935
Acquisition through business combinations	–	92,693	2,442	2	22,702	133	–	7,341	125,313
Additions	–	11,708	1,978	4,262	42,123	1,887	5,298	2,314	69,570
Transfers from investment property	1,586	–	–	–	–	–	–	–	1,586
Disposals	–	(1,513)	(72)	(316)	(755)	(256)	(280)	–	(3,192)
Transfers and corrections	(29)	337	(2,470)	124	2,550	188	851	(1,551)	–
31 December 2015	3,588	312,490	9,825	8,313	115,636	4,714	7,169	12,477	474,212
Acquisition through business combinations (Note 5)	4,640	13,296	1,088	1,323	1,282	1,019	1,063	–	23,711
Revaluation (Note 24; Note 36)	–	12,846	–	–	–	–	–	–	12,846
Additions	–	52,444	4,046	3,339	44,803	163	1,316	5,134	111,245
Disposals	–	(6,276)	(188)	(500)	(298)	(917)	(149)	–	(8,328)
Transfers and corrections	(46)	16,859	(1,948)	(1,836)	(15,884)	(635)	(137)	(16,859)	(20,486)
31 December 2016	**8,182**	**401,659**	**12,823**	**10,639**	**145,539**	**4,344**	**9,262**	**752**	**593,200**

	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 2015	135	2,631	1,520	1,737	11,295	472	207	–	17,997
Depreciation charge	20	3,760	1,025	1,265	5,738	342	163	–	12,313
Disposals	–	(114)	(23)	(5)	(477)	(99)	(98)	–	(816)
Transfers and corrections	(2)	49	30	22	(64)	4	(39)	–	–
31 December 2015	153	6,326	2,552	3,019	16,492	719	233	–	29,494
Depreciation charge	39	1,965	1,433	1,545	11,307	832	781	–	17,902
Disposals	–	(297)	(155)	(141)	(237)	(29)	(8)	–	(867)
Revaluation	–	(7,814)	–	–	–	–	–	–	(7,814)
Transfers and corrections	–	–	(1,963)	(1,836)	(15,884)	(635)	(169)	–	(20,487)
31 December 2016	**192**	**180**	**1,867**	**2,587**	**11,678**	**887**	**837**	**–**	**18,228**
Net book value:									
1 January 2015	1,896	206,634	6,427	2,504	37,721	2,290	1,093	4,373	262,938
31 December 2015	3,435	306,164	7,273	5,294	99,144	3,995	6,936	12,477	444,718
31 December 2016	**7,990**	**401,479**	**10,956**	**8,052**	**133,861**	**3,457**	**8,425**	**752**	**574,972**

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 2016 was GEL 410,221 (2015: GEL 322,076).

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

11. Property and equipment continued

During 2016 the Group changed its accounting policy with respect to the hospitals and clinics. The Group engaged an independent appraiser to determine the fair value of its land and office buildings and hospitals and clinics on 1 July 2016. As a result, the Group posted a revaluation surplus of GEL 20,804 of which GEL 19,645 was attributable to shareholders of the Company and GEL 1,159 was attributable to non-controlling interest. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Group's buildings was dated 1 July 2016. If the land and office buildings and hospitals and clinics were measured using the cost model, the carrying amounts of the buildings as at 31 December 2016 and 31 December 2015 would be as follows:

	31 December 2016	31 December 2015
Cost	**397,062**	3,521
Accumulated depreciation and impairment	**(8,245)**	(151)
Net carrying amount	**388,817**	3,370

12. Goodwill and other intangible assets

The movements in goodwill were as follows:

	Goodwill
1 January 2015	8,415
Acquisition through business combinations (Note 5)	12,298
31 December 2015	20,713
Acquisition through business combinations (Note 5)	33,149
Change in GNCo Goodwill (Note 5)	853
31 December 2016	**54,715**

Other intangible assets comprise licenses and computer software with carrying value as at 31 December 2016 of GEL 15,624 (2015: GEL 5,074). As at 31 December 2016 the cost of other intangible assets equalled GEL 17,607 (31 December 2015: GEL 6,119) and accumulated amortisation equalled GEL 1,983 (31 December 2015: GEL 1,045). The Group did not identify any impairment of intangible assets as at 31 December 2016.

	Effective annual growth rate in three-year financial budgets	WACC applied for impairment	**31 December 2016**	31 December 2015
JSC Insurance Company Aldagi	10.00%	13.0%	**3,260**	3,260
JSC My Family Clinic	10.00%	13.0%	**508**	508
JSC Insurance Company Partner	10.00%	13.0%	**103**	103
JSC Insurance Company Imedi L International	10.00%	13.0%	**99**	99
Caraps Medline	10.00%	13.0%	**3,534**	3,534
Traumatology	10.00%	13.0%	**911**	911
GNCo	10.00%	13.0%	**12,282**	11,429
LLC Catastrophe Medicine Paediatric Centre	10.00%	13.0%	**869**	869
JSC GPC	10.00%	13.0%	**29,025**	–
LLC Emergency Service	10.00%	13.0%	**2,467**	–
JSC Pediatry	10.00%	13.0%	**963**	–
LTD Patgeo	10.00%	13.0%	**694**	–
Total			**54,715**	20,713

In performing goodwill impairment testing the following key assumptions were made:

- WACC was used as a discount rate for the forecasted cash flows. WACC was estimated using capital assets pricing model based on the Group's shares market beta.
- 2017, 2018 and 2019 years cash flow projections were modelled applying 10% growth.
- Moderate, stable 4% real GPD growth was assumed based on the external statistical forecasts for 2020 and beyond.

Management believes that reasonably possible changes in key assumptions used to determine the recoverable amount of CGUs will not result in an impairment of goodwill. The Group performs goodwill impairment testing annually. The latest impairment test performed by the Group was as at 31 December 2016. In 2016 the reporting segments were considered as CGUs for the purposes of goodwill impairment testing. The Group did not identify any impairment of goodwill as at 31 December 2016. The recoverable amounts of the cash-generating units have been determined based on a value-in-use calculations using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period, historical price-to-tangible book value multiple and price earnings ratio multiple.

13. Taxation

The corporate income tax benefit comprise:

	Year ended 31 December 2016	Year ended 31 December 2015
Current tax benefit/(expense)	**1,152**	(2,113)
Deferred tax benefit – origination and reversal of temporary differences	**20,004**	2,122
Income tax benefit	**21,156**	9

Georgian legal entities must file individual tax declarations. The statutory corporate tax rate was 15% in years ended 31 December 2016 and 31 December 2015.

In May 2016, the parliament of Georgia signed a document approving a change in the current corporate taxation model which is applicable starting from 1 January 2017 for all entities apart from financial institutions, including insurance business and is applicable starting from 1 January 2019 to financial institutions, including our medical insurance subsidiary – Imedi L. The new model implies zero rate on retained earnings and 15% tax rate on distributed earnings. The Group considers the new regime was substantively enacted in June 2016 and thus has re-measured its deferred tax assets and liabilities. The deferred tax assets and liabilities remaining as of 31 December 2016 are attributable to only those temporary differences that are expected to be realised or reversed before the new Corporate Income Tax code becomes effective for financial institutions (1 January 2019). The change had immediate impact on deferred tax asset and deferred tax liability balances. The Group calculated the portion of the deferred tax expected to be utilised before 1 January 2017 for healthcare services and pharma subsidiaries and the portion of deferred tax expected to be utilised before 1 January 2019 for medical insurance business and fully wrote-off the unutilised portion of deferred tax assets and liabilities.

The effective income tax rate differs from the statutory income tax rates. Reconciliation of the income tax benefit based on statutory rates with actual is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
IFRS income before tax	**40,175**	23,608
Statutory tax rate	**15%**	15%
Theoretical income tax expense at the statutory rate	**(6,026)**	(3,541)
Georgian tax code change effect	**19,379**	–
Correction of prior year declaration	**4,613**	1,588
Non-taxable income	**3,195**	2,702
Non-deductible expenses	**(5)**	(740)
Income tax benefit	**21,156**	9

Non-taxable income mainly comprises the amount of utilised investment tax credit and other non-taxable corrections. Reinvestment of profits in medical business is free from taxation in accordance with Georgian tax legislation. Judgment is applied to assess and determine the portion of the current year profit that the Group will reinvest in its core economical activities during the next three years. The probable future reinvestment amount of current year profit is based on the medium-term business plan (three years following the current year) prepared by the management.

The Group has an unrecognised deferred tax asset as at 31 December 2016 of GEL 587 (2015: GEL 25) originating from tax loss carried forward in the Company's separate accounts. The Group does not expect taxable profits in the Company's separate accounts for the foreseeable future which would enable it to utilise tax loss. Accordingly, in the absence of recognition of a deferred tax asset, there is no impact on the financial statements for the year ended 31 December 2016 of the future reductions in the UK corporation tax rate.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

13. Taxation continued

Deferred tax assets and liabilities as at 31 December and their movements for the year then ended comprise:

	1 January 2015	In the income statement	Acquired through business combination	31 December 2015	In the income statement	Acquired through business combination	**31 December 2016**
Tax effect of deductible temporary differences							
Tax loss carried forward	3,135	1,012	–	4,147	(4,147)	–	**–**
Insurance premiums receivables	705	415	–	1,120	(607)	–	**513**
Receivable from healthcare services	798	732	–	1,530	(1,530)	–	**–**
Receivable from sale of pharmaceuticals	–	–	–	–	(214)	214	**–**
Accruals for employee compensation	433	433	988	1,854	(2,054)	200	**–**
Borrowings	–	23	–	23	64	–	**87**
Accounts payable	–	–	–	–	(63)	63	**–**
Other assets	356	(42)	–	314	(251)	–	**63**
Deferred tax assets	5,427	2,573	988	8,988	(8,802)	477	**663**
Tax effect of taxable temporary differences							
Property and equipment	12,477	1,054	13,443	26,974	(28,860)	1,915	**29**
Investment in associate	–	–	–	–	(289)	289	**–**
Debt securities issued	–	117	–	117	(117)	–	**–**
Insurance contract liabilities	6	37	–	43	(78)	–	**(35)**
Intangible assets	264	91	–	355	5	–	**360**
Other liabilities	857	(848)	–	9	533	(542)	**–**
Deferred tax liabilities	13,604	451	13,443	27,498	(28,806)	1,662	**354**
Net deferred tax (liability) asset	(8,177)	2,122	(12,455)	(18,510)	20,004	(1,185)	**309**
Deferred income tax assets	703	(895)	988	796	(964)	477	**309**
Deferred income tax liabilities	(8,880)	3,017	(13,443)	(19,306)	20,968	(1,662)	**–**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Georgia currently has a number of laws related to various taxes imposed by State Governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax) and a turnover based tax, amongst others. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies. Therefore, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia that are substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues. The Group's operations and financial position will continue to be affected by Georgian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect on the Group could have a material impact on the Group's operations or its financial position in Georgia.

14. Prepayments

Prepayments comprise:

	31 December 2016	31 December 2015
Prepayments for property and equipment and intangible assets	**24,914**	6,119
Prepayments for operating expenses	**5,604**	2,998
Total prepayments	**30,518**	9,117

Significant increase in balance of prepayments is caused by the intensive capital expenditure stage entered by of the Group in 2016. The prepayments mainly comprise advances to constuctors of Deka and Sunstone hospitals.

15. Other assets

Other assets comprise:

	31 December 2016	31 December 2015, as reclassified
Derivative financial assets	**6,277**	–
Non-medical receivables	**5,599**	7,449
Loans issued	**2,963**	10,314
Lease deposit	**1,853**	–
Deferred acquisition costs	**1,341**	1,050
Prepaid operating taxes	**237**	1,401
Other	**3,201**	3,086
Total other assets, gross	**21,471**	23,300
Less – allowance for impairment	**(3,201)**	(1,583)
Total other assets, net	**18,270**	21,717

As at 31 December 2015 loans issued by the Group consisted mainly of the loans granted to the Poti Central Clinical Hospital and Block Georgia Group, the parent company of Poti Central Clinical Hospital. During the year ended 31 December 2016 the Group obtained control over Poti in exchange for the offsetting of pre-existing loans and liabilities (Note 5). Remaining balance of loans issued as at 31 December 2016 mainly comprise debt securities issued by JSC m2 Real Estate and LLC Georgian Leasing Company that are owned by the Group, as well as loans issued to LLC PP. All three companies represent related party entities of the Group.

As at 31 December 2016, lease deposit comprises advances paid to lease contractor on rent of ambulatory clinic. Lease payments are netted against the deposited amount upon payment due date.

16. Insurance contract liabilities

Insurance contract liabilities comprise:

	31 December 2016	31 December 2015
Insurance contracts liabilities		
– Unearned premiums reserve ("UPR")	**22,372**	17,985
– Reserves for claims reported but not settled ("RBNS")	**2,625**	1,716
– Reserves for claims incurred but not reported ("IBNR")	**1,790**	1,650
Total insurance contracts liabilities	**26,787**	21,351

Movement in the insurance contract liabilities during the year:

	31 December 2016	31 December 2015
At 1 January	**21,351**	17,583
Premiums written during the year	**65,491**	61,648
Premiums earned during the year	**(61,104)**	(58,369)
Claims incurred during the year	**45,544**	42,882
Claims paid during the year	**(44,495)**	(42,393)
At 31 December	**26,787**	21,351

17. Borrowings

Borrowings comprise:

	31 December 2016	31 December 2015
Borrowings from local financial institutions	**79,417**	97,789
Borrowings from foreign financial institutions	**99,541**	14,423
Borrowings from shareholders	**5,756**	5,013
Overdrafts from local commercial banks	**2,843**	–
Total borrowings	**187,557**	117,225

In the year ended 31 December 2016 borrowings from local financial institutions had an average interest rate of 10.66% per annum (2015: 13.75%), maturing on average in 1,299 days (2015: 1,713 days). Borrowings from international financial institutions had an average interest rate of 6.31% (2015: Libor + 1.9%), maturing in 2,213 days (2015: 1,352 days). Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. At 31 December 2016 and 31 December 2015 the Group complied with all these lender covenants. As at 31 December 2016 the Group had undrawn loan commitment of US$25 million from International Finance Corporation and undrawn loan commitment of US$4 million from Proparco. The Company's borrowings fully comprise loans from Medical Corporation Evex of GEL 13,311 (2015: GEL 0).

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

18. Accounts payable

Accounts payable comprise:

	31 December 2016	31 December 2015, as reclassified
Payable for purchase of property and equipment	**9,744**	5,295
Accounts payable for healthcare materials and supplies	**39,424**	20,281
Accounts payable for healthcare services	**3,902**	3,340
Accounts payable for other services	**7,646**	5,311
Other accounts payable	**3,651**	1,244
Total accounts payable	**64,367**	35,471

19. Debt securities issued

In June 2015 EVEX issued two-year term local bonds of US$15 million (GEL 34.2 million). The bonds were issued at par value with an annual coupon rate of 9.5% payable semi-annually. In 2016, the Group early redeemed GEL 3,497 of the debt securities and incurred an insignificant loss on the transaction. Outstanding balance as of 31 December 2016 equaled GEL 36,024 (2015: GEL 35,537).

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; and (iii) any liabilities of the acquiree and/or its related parties towards the acquirer should not remain unpaid for greater than predetermined 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. As at 31 December 2016 payable for share acquisitions comprised a holdback for the acquisition of JSC GPC of GEL 5,210, a holdback for acquisition of LLC Emergency Service of GEL 2,850 and a holdback for acquisition of JSC Pediatry of GEL 347. As at 31 December 2015 the amount payable for share acquisitions of the Group comprised amounts payable for and deriving from the acquisitions of GNCo of GEL 21,513 and Deka of GEL 562.

21. Finance lease liabilities

Finance lease liabilities comprises of the minimum lease payments and repurchase option price, exercisable in up to a one-year period from agreement start date, of three ambulatory clinics located in Georgia – two of them in Tbilisi and one in Batumi, western Georgia. As of 31 December 2016, net carrying value of properties held under finance lease equalled GEL 13,418. Undiscounted value of future minimum lease payments and repurchase option equalled GEL 15,089 (Note 39) while present value of these amounts equalled GEL 14,878. The difference of GEL 211 between the two values fully comprised a discount applying a 6% implicit rate. At the option expiration, the embedded purchase option in finance lease agreements is renewed automatically unless the counterparty comes up with new repurchase price within several days from the option expiration. All payments under finance lease contracts are due in no later than one year.

22. Other liabilities

Other liabilities comprise:

	31 December 2016	31 December 2015, as reclassified
Provision for ongoing litigations	**2,141**	1,533
Insurance claims payable	**2,283**	2,177
Operating taxes payable	**5,648**	3,881
Commissions payable	**1,341**	1,050
Deferred revenues	**4,427**	–
Other	**412**	786
Total other liabilities	**16,252**	9,427

Provisions for ongoing litigations mainly result from the acquired companies. The provisions were created on acquisition and were taken into account in the process of determining consideration for the business combination upon the company acquisition. There have been no changes in provisions for ongoing litigation since acquisition date.

23. Commitments and contingencies

Legal

In the ordinary course of business, the Group and the Company are 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 and the Company.

Taxation

Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant tax authorities. Recent events within Georgia suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Financial commitments and contingencies

The Group's financial commitments and contingencies comprise the following:

	31 December 2016	31 December 2015
Capital commitments	**12,914**	17,176
Operating lease commitments		
– Leases due not later than 1 year	**14,200**	3,639
– Leases due later than 1 year but not later than 5 years	**61,824**	16,278
Total financial commitments	**88,938**	37,093

In year ended 31 December 2016 as well as in year ended 31 December 2015 capital commitments comprised of contracts related to construction of ambulatory clinics in Georgia. The commitments fully result from subsidiaries. The Company does not have any commitments or contingencies. The Group did not have contingent rents or sublease payments. The Company does not have any lease commitments. Rent expense recognised during the year equalled GEL 9,382 (2015: GEL 1,672).

As at 31 December 2016 the Group had litigations with the Social Service Agency on aggregate amount of GEL 3,765. The litigations were mainly related to procedural violations in medical documentation as well as billing and invoicing process. The Group's legal department identified related risks as possible but not probable.

24. Equity

In April 2015 the Group obtained a convertible loan from BGEO in the amount of US$12 million (GEL 28,280 as of conversion date). In May 2015 the loan was converted to 13,446,125 of GHG shares with par value of GEL 1 (par value changed to GBP 0.1 after IPO). The difference of GEL 14,834 between the carrying amount of the converted loan and par value of shares issued was recognised within additional paid-in capital.

In 2016 and in 2015 the following changes occurred in the amount of authorised shares:

	Number of ordinary shares	Amount of ordinary shares
1 January 2015	28,334,829	28,335
Imedi L and EVEX shares	(28,334,829)	–
Holding company establishment	76,053,875	(9,284)
Loan conversion	13,446,125	13,446
Proceeds from IPO (Note 1)	38,681,820	14,073
Issue of treasury shares	3,500,000	1,272
31 December 2015	131,681,820	47,842
Capital reduction	–	(43,058)
31 December 2016	**131,681,820**	**4,784**

As at 31 December 2016 the total authorised shares of GHG amounted to 131,681,820 at par value of 0.01 GBP all of which were fully paid.

In January 2016 the Group completed a court-approved reduction of share capital and share premium (the "Capital Reduction"), whereby the entire amount outstanding on the share premium account was cancelled and the nominal value of each issued ordinary share in the capital of the Company was reduced from 0.1 GBP to 0.01 GBP. The Capital Reduction has created a significant amount of distributable reserves for the Company. As at 31 December 2016 the additional paid-in capital included share-based compensation charge, difference between treasury shares purchase price and nominal value, expenses charged directly to equity.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

24. Equity continued

Treasury shares are held by Sanne Fiduciary Services Limited, the trustee of the Group's employee benefit trust solely for employee share-based compensation purposes. The number of treasury shares held by the Group as at 31 December 2016 was 3,727,835 and as at 31 December 2015 this was 3,500,000.

The share capital of the Company was paid by the shareholders in Georgian Lari and they were entitled to dividends in Georgian Lari before the IPO. After establishment of GHG PLC (Note 1) the Company share capital was denominated in GBP and shareholders are entitled to dividends in GBP. No dividends were announced or distributed in 2016 or 2015.

Proceeds from the IPO in November 2015 equalled GEL 233,975. In 2016 the Group has identified transaction costs related to the IPO of GEL 2,520. In 2015 the Group identified transaction costs related to IPO of GEL 11,836. These costs have been debited directly to equity through additional paid-in capital and mainly comprise London Stock Exchange listing related fees of GEL 602, business travel expenses of GEL 430, IPO-related cash bonuses accrued of GEL 200, professional service expenses related to the IPO including audit and consultancy expenses as well as investment bankers' fees of GEL 13,098, representative and other individually immaterial expenses of GEL 291 and the tax effect of the IPO transaction costs of GEL 265, deducted from the transaction costs.

In 2016 GEL 20,804 was recognised in other comprehensive income as a revaluation surplus on hospitals and clinics. From the total amount, GEL 19,645 was attributable to shareholders of the Company and GEL 1,159 was attributable to non-controlling interests.

Regulatory capital requirements in Georgia are set by the ISSSG and are applied to Imedi L solely on a stand-alone basis. The ISSSG requirement is to maintain a minimum capital of GEL 2,200 (2015: GEL 1,500), of which 80% should be kept in current accounts. A bank confirmation letter is submitted to ISSSG on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement. Imedi L regularly and consistently complies with the ISSSG regulatory capital requirement.

In the July-September period of 2016, the Group purchased 227,835 Company shares (0.2% of outstanding shares) in the open market for cash consideration of GEL 2,310 to satisfy awards of share-based compensation to doctors and middle management. Aggregate nominal value of purchased shares comprised GEL 7. 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 50,201 (2015: GEL 19,651) and GEL 69,848 (2015: GEL 19,651) respectively as a numerator and the weighted average number of shares outstanding during the year ended 31 December 2016 of 128,067,903 (2015: 128,181,820) as a denominator. For diluted earnings per share, the Group used same numerator as for basic earnings per share and used the weighted average number of shares outstanding together with number of shares granted to management during the year ended 31 December 2016 of 131,681,820 (2015: 131,681,820) as a denominator.

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and hospitals and clinics and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. As at 31 December 2016 the revaluation reserve for property and equipment equalled GEL 20,104 (2015: GEL 459).

Gains (losses) from sale/acquisition of shares in existing subsidiaries

In March 2016, the Group acquired the remaining 33.3% minority shareholding of its largest pediatric hospital, Iashvili Referral Hospital. The Group has held a 66.7% controlling interest in Iashvili since February 2014. In exchange for the 33.3% minority shareholding in Iashvili, GHG paid cash consideration of US$1.0 million and transferred non-cash consideration – all of its fixed assets in Tbilisi Maternity Hospital "New Life" – to the seller of the minority stake. The resulting gain from the acquisition was GEL 467.

In February 2015 JSC Georgia Healthcare Group acquired an additional 25% stake in LLC Children New Clinic, an existing subsidiary of which the Group previously owned a 75% stake. The acquisition of additional interests in existing subsidiaries in the year ended 31 December 2015 derives from this transaction. The consideration paid by the Group comprised GEL 2,011 for the purchase of the non-controlling interest of GEL 3,265. The resulting gain GEL 1,254 is recorded directly in equity.

As at 31 December 2016 losses from sale/acquisition of shares in existing subsidiaries equalled GEL 15,282 (2015: GEL 15,748).

25. Healthcare services revenue

Healthcare services revenue comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Healthcare services revenue from the State	**179,354**	148,855
Healthcare services revenue from out-of-pocket and other	**48,991**	34,801
Healthcare services revenue from insurance companies	**7,341**	3,944
Less: Corrections & rebates	**(2,686)**	(3,608)
Total healthcare services revenue	**233,000**	183,992

Healthcare services revenue from the State represents the revenue through UHC. A full description of the programme is provided in Note 10.

26. Revenue from pharma

Revenue from pharma comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Wholesale	**33,557**	–
Retail	**96,092**	–
Total revenue from pharma	**129,649**	–

27. Net insurance premiums earned

Net insurance premium earned comprises:

	Year ended 31 December 2016	Year ended 31 December 2015, as reclassified
Gross premiums written	**65,491**	61,648
Change in unearned premiums reserve	**(4,387)**	(3,279)
Total net insurance premiums earned	**61,104**	58,369

28. Cost of healthcare services

Cost of healthcare services comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Cost of salaries and other employee benefits	**(75,635)**	(65,329)
Cost materials and supplies	**(35,805)**	(27,948)
Cost of utilities and other	**(9,475)**	(7,450)
Cost of providers	**(1,733)**	(2,327)
Total cost of healthcare services	**(122,648)**	(103,054)

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 2016 to GEL 39,750 (2015: GEL 26,515) 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 2016 amounted to GEL 115,385 (2015: GEL 91,844).

29. Cost of sales of pharmaceuticals

Cost of sales of pharmaceuticals comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Wholesale	**(30,332)**	–
Retail	**(75,140)**	–
Total cost of sales of pharmaceuticals	**(105,472)**	–

30. Cost of insurance services and agents' commissions

Cost of insurance services and agents' commissions comprises:

	Year ended 31 December 2016	Year ended 31 December 2015, as reclassified
Insurance claims paid	**(44,495)**	(42,393)
Change in insurance contract liabilities	**(1,049)**	(489)
Net insurance claims incurred	**(45,544)**	(42,882)
Agents, brokers and employee commissions	**(4,071)**	(3,296)
Cost of insurance services and agents' commissions	**(49,615)**	(46,178)

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

31. Other operating income

Other operating income comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Rental income	**1,316**	876
Share of profit of associate	**254**	–
Gain from re-sale of medicines	**342**	344
Revenues from factoring	**–**	66
Gain from sale of equipment	**256**	171
Other	**841**	2,743
Total other operating income	**3,009**	4,200

In the year ended 31 December 2015 the exceptionally large "Other" caption of other operating income mainly comprised the gain from discounting a zero interest bearing liability from Government to compensate for credit losses incurred as a result of the bankruptcy of an insurance company Archimede of GEL 590, a gain from the reversal of a provision of a GEL 1,060, revenue from medical trials of GEL 168 and the gain from sale of building of GEL 106.

32. Salaries and other employee benefits

Salaries and employee benefits comprise:

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries and other benefits	**(35,149)**	(23,453)
Cash bonuses	**(2,222)**	(1,973)
Share-based compensation	**(2,379)**	(1,089)
Total salaries and other employee benefits	**(39,750)**	(26,515)

Average number of full time employees, including those whose salaries are included in cost of healthcare services, in 2016 equalled 11,260 (2015: 8,880). In 2016 the total amount of management share based compensation prior to capitalisation of eligible costs equalled GEL 3,840 (2015: GEL 1,089).

Directors' remuneration information is disclosed in the Remuneration report in the front end of the Annual Report.

33. General and administrative expenses

General and administrative expenses comprise:

	Year ended 31 December 2016	Year ended 31 December 2015
Office supplies and utility expenses	**(3,503)**	(2,335)
Repair, maintenance and rent expense	**(11,087)**	(2,369)
Communication	**(1,251)**	(963)
Professional services	**(2,807)**	(360)
Representative expense	**(780)**	(732)
Marketing and advertising	**(3,590)**	(891)
Travel	**(804)**	(608)
Bank fees and commissions	**(406)**	(227)
Security	**(313)**	(103)
Other	**(3,312)**	(1,929)
Total general and administrative expenses	**(27,853)**	(10,517)

33. General and administrative expenses continued

In the years ended 31 December 2016 and 31 December 2015 other general and administrative expenses mainly comprised of training, property tax, property insurance and other operating tax expenses. The below table presents auditors' remuneration:

	Year ended 31 December 2016	Year ended 31 December 2015
Fees payable for the audit of the Company's current year Annual Report	**900**	850
Fees payable for other services:		
Audit of the Company's subsidiaries	**349**	960
Total audit fees	**1,249**	1,810
Audit-related assurance services		
Review of the Company's and subsidiaries' interim accounts	**384**	–
Other assurance services	**–**	1,292
Total audit-related fees	**384**	**1,292**
Tax advisory services	**–**	106
Corporate finance services	**–**	1,702
Other services	**–**	–
Total other services fees	**–**	1,809
Total fees	**1,633**	4,911

34. Impairment of healthcare services, 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 and other	Total
1 January 2015	2,255	6,272	8,527
Impairment charge	308	3,140	3,448
Recovery/Reclassification	129	–	129
31 December 2015	2,692	9,412	12,104
Impairment charge	**451**	**1,881**	**2,332**
Recovery/Reclassification	**(624)**	**2,938**	**2,314**
31 December 2016	**2,519**	**14,231**	**16,750**

Allowances for impairment of assets are deducted from the gross carrying amounts of the related assets.

35. Interest income and interest expense

Interest income and interest expense comprise:

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income		
Interest income from loans issued	**453**	1,481
Interest income from amounts due from credit institutions	**1,388**	1,197
Total interest income	**1,841**	2,678
Interest expense		
Interest expense on borrowings	**(12,331)**	(21,966)
Interest expense on debt securities issued	**(3,246)**	(993)
Total interest expense	**(15,577)**	(22,959)

As at 31 December 2016 the amount of borrowing costs capitalised in relation to qualifying items of property and equipment was GEL 2,484 (2015: GEL 1,063).

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

36. Net non-recurring (expense)/income

Net non-recurring expense for the year ended 31 December 2016 comprised:

- GEL 2,348 gain from disposal of New Life clinic;
- GEL 2,938 loss from one-off write-off of old receivables;
- GEL 1,670 gain from write-off of waived payables;
- GEL 1,288 loss on contract terms which are expected to be improved in 2017 year;
- GEL 441 loss from one-off compensation to employees;
- GEL 358 one-off currency conversion loss from settlement of consideration paid for acquisition of JSC GPC;
- GEL 3,500 gain on reversal of impairment of property and equipment of GNCo;
- GEL 2,714 loss from write-off of overdue loans;
- GEL 3,206 gain from a bargain purchase of JSC Poti Central Clinical Hospital;
- GEL 433 penalties from the Social Service Agency inspections;
- GEL 300 penalties from various tax inspections;
- GEL 449 other penalties from counterparties;
- GEL 270 loss from correction of acquisition costs;
- GEL 269 loss from correction of payables as a result of reconciliation with counterparties;
- GEL 134 one-off loss from litigations;
- GEL 144 net loss from revaluation of hospitals and clinics; and
- GEL 132 net gain from other individually insignificant transactions.

Net non-recurring expense for the year ended 31 December 2015 comprised:

- GEL 5,359 gain from a bargain purchase of LLC Deka;
- GEL 2,526 loss on write-off of various assets;
- GEL 1,577 foreign exchange loss on revaluation of GNCo holdback;
- GEL 1,140 tax penalty from inspection of Revenue Services of Georgia;
- GEL 812 loss on contract which is expected to be cancelled in 2016;
- GEL 483 expense from various penalties including early repayment of borrowings;
- GEL 372 expenses on employee dismissal as a result of reorganisation of acquired clinics;
- GEL 80 charity expenses related to flood in Tbilisi, the capital city of Georgia; and
- GEL 51 loss from other individually insignificant transactions.

37. 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.

Due to the fact that the Group does not expect payments of any dividends in subsequent years, they were not incorporated into the measurement of fair value of the plans.

GHG Plans

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 of grant date. The fair values were identified based on market prices on grant date. As at 31 December 2016, no shares have been 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 fixed 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 of the respective grant dates. The respective fair values were estimated using appropriate valuation techniques based on market and income approaches. As at 31 December 2016, no shares have been vested.

BGEO Plans

In March 2015 the Board of Directors of BGEO resolved to award 24,576 ordinary shares of BGEO to four executives of the Group. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for the awards. The Group considers 19 March 2015 as the grant date for the awards. The Group estimates that the fair value of the shares awarded on 19 March 2015 was GEL 57.41 per share. The fair value was identified based on market prices on grant date. As at 31 December 2016, one-third of the awarded shares have vested.

38. Capital management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current year, revaluation and other reserves and non-controlling interests. 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; and
- 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 within the jurisdiction where it operates, currently Georgia only. Such regulations prescribe approval and monitoring of certain activities. They also impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimal 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 2016 and year ended 31 December 2015 the Group complied with all of 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 the regulatory capital and, also, to hold sufficient liquid assets to cover statutory requirements based on the directives of ISSSG. Regulations of ISSSG 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, investment property as well as other financial assets, as defined by ISSSG. The amount of such minimal liquid assets is called the "Statutory Reserve".

The Statutory Reserve requirement for Imedi L as at 31 December 2016 equals the minimal amount of liquid assets of GEL 7,007 (2015: GEL 9,565). The insurance company is fully compliant with the requirement by holding GEL 9,693 (2015: GEL 10,607) of total eligible liquid assets.

39. 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.

Risk management structure

Board of Directors

During 2016 and 2015 years the Board of Directors of the Group had the responsibility to monitor and manage the risk process within the respective GHG components on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees.

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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

39. Risk management continued

Monitoring and controlling risks is 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 2016	31 December 2015
Loss ratio	**84.1%**	83.4%
Combined ratio	**104.7%**	96.7%

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:

	Year ended 31 December 2016	Year ended 31 December 2015
Healthcare	**3,556**	2,412
Term life	**667**	721
Travel	**144**	222
Personal accident	**48**	11
Total	**4,415**	3,366

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.

Loss development triangle

Reproduced below is a table that shows the development of claims over a period of time. The table shows reserves for both, claims reported as well as claims incurred but not yet reported, and cumulative payments. Claims estimates are translated into GEL at the rate of exchange that applied at the end of the accident year:

39. Risk management continued

Accident year	31 December 2016	31 December 2015	31 December 2014
At the end of accident year	**49,959**	46,247	58,190
One year later	**–**	46,252	58,209
Two years later	**–**	–	58,209
Three years later	**–**	–	–
Current estimation of cumulative claims incurred	**49,959**	46,252	58,209
At the end of accident year	**(45,544)**	(42,881)	(55,225)
One year later	**–**	(46,242)	(58,180)
Two years later	**–**	–	(58,180)
Three years later	**–**	–	–
Cumulative payments to date	**(45,544)**	(46,242)	(58,180)
Outstanding claims provision per balance sheet	**4,415**	10	29
Current estimation of surplus (deficit)		(5)	(19)
% of surplus (deficit) to initial gross reserve		-0.01%	-0.03%

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.

Credit quality per class of financial assets

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.

	Notes	Neither past due nor impaired 31 December 2016	Past-due but not impaired 31 December 2016	Impaired 31 December 2016	Total 31 December 2016
Amounts due from credit institutions	8	**23,876**	**–**	**–**	**23,876**
Insurance premiums receivable	9	**23,420**	**–**	**3,306**	**26,726**
Receivables from sales of pharmaceuticals		**2,288**	**152**	**2,665**	**5,105**
Receivables from healthcare services	10	**52,324**	**16,419**	**24,214**	**92,957**
Other assets: derivative financial assets	15	**6,277**	**–**	**–**	**6,277**
Other assets: loans issued and lease deposit	15	**4,816**	**–**		**4,816**
Other assets: other receivables		**1,428**	**1,010**	**3,235**	**5,673**
Total		**114,429**	**17,581**	**33,420**	**165,430**

	Notes	Neither past due nor impaired 31 December 2015	Past-due but not impaired 31 December 2015	Impaired 31 December 2015	Total 31 December 2015
Amounts due from credit institutions	8	12,245	–	–	12,245
Insurance premiums receivable	9	19,370	–	3,985	23,355
Receivables from healthcare services	10	31,365	8,154	34,173	73,692
Other assets: loans issued	15	–	10,314	–	10,314
Total		62,980	18,468	38,158	119,606

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days or are overdue more than 30 days but have not been impaired due to objective reasons. Otherwise those receivables and financial assets that are overdue for more than 30 days are considered as impaired. The Group does not have a credit rating system to evaluate impaired loans. Therefore, impairment charges and allowance are based on the number of days overdue and the history of past performance by each time bucket of overdue exposures.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

39. Risk management continued

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.

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 2016	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	**23,239**	**–**	**23,239**
Amounts due from credit institutions	**23,876**	**–**	**23,876**
Insurance premiums receivables	**24,207**	**–**	**24,207**
Receivables from healthcare services	**81,927**	**–**	**81,927**
Receivables from sales of pharmaceuticals	**5,105**	**–**	**5,105**
Investment in associate	**–**	**2,370**	**2,370**
Inventory	**54,920**	**–**	**54,920**
Prepayments	**5,604**	**24,914**	**30,518**
Property and equipment	**–**	**574,972**	**574,972**
Goodwill and other intangible assets	**–**	**70,339**	**70,339**
Current income tax assets	**2,511**	**–**	**2,511**
Deferred income tax assets	**–**	**309**	**309**
Other assets	**18,270**	**–**	**18,270**
Total assets	**239,659**	**672,904**	**912,563**
Liabilities			
Accounts payable	**64,367**	**–**	**64,367**
Accruals for employee compensation	**16,001**	**–**	**16,001**
Payable for share acquisitions	**5,210**	**3,197**	**8,407**
Insurance contract liabilities	**26,787**	**–**	**26,787**
Borrowings	**42,414**	**145,143**	**187,557**
Debt securities issued	**36,024**	**–**	**36,024**
Finance lease liabilities	**14,878**	**–**	**14,878**
Current income tax liabilities	**258**	**–**	**258**
Other liabilities	**16,252**	**–**	**16,252**
Total liabilities	**222,191**	**148,340**	**370,531**
Net position	**17,468**	**524,564**	**542,032**
Accumulated gap	**17,468**	**542,032**	

39. Risk management continued

Liquidity risk and funding management continued

31 December 2015	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	145,153	–	145,153
Amounts due from credit institutions	12,245	–	12,245
Insurance premiums receivables	20,663	–	20,663
Receivables from healthcare services	65,863	–	65,863
Prepayments	2,998	6,119	9,117
Property and equipment	–	444,718	444,718
Goodwill and other intangible assets	–	25,787	25,787
Current income tax assets	1,165	–	1,165
Deferred income tax assets	–	796	796
Other assets	32,773	–	32,773
Total assets	280,860	477,420	758,280
Liabilities			
Accounts payable	35,471	–	35,471
Accruals for employee compensation	17,679	–	17,679
Payable for share acquisitions	22,075	–	22,075
Insurance contract liabilities	21,351	–	21,351
Borrowings	8,254	108,971	117,225
Debt securities issued	993	34,544	35,537
Current income tax liabilities	5,228	–	5,228
Deferred income tax liabilities	–	19,306	19,306
Other liabilities	9,427	–	9,427
Total liabilities	120,478	162,821	283,299
Net position	160,382	314,599	474,981
Accumulated gap	160,382	474,981	

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 2016	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	**64,367**	**–**	**–**	**–**	**64,367**
Accruals for employee compensation	**16,001**	**–**	**–**	**–**	**16,001**
Debt securities issued	**–**	**38,364**	**–**	**–**	**38,364**
Borrowings	**18,639**	**36,887**	**130,784**	**30,872**	**217,182**
Finance lease liabilities	**9,436**	**5,653**	**–**	**–**	**15,089**
Other financial liabilities	**22,950**	**–**	**–**	**–**	**22,950**
Total undiscounted financial liabilities	**131,393**	**80,904**	**130,784**	**30,872**	**373,953**

31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	35,471	–	–	–	35,471
Accruals for employee compensation	17,679	–	–	–	17,679
Debt securities issued	–	3,413	37,630	–	41,043
Borrowings	10,943	22,795	97,414	13,153	144,305
Other financial liabilities	7,704	–	–	–	7,704
Total undiscounted financial liabilities	71,797	26,208	135,044	13,153	246,202

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

39. Risk management continued

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 2016			31 December 2015		
	GEL	**US$**	**EUR**	GEL	US$	EUR
Amounts due from credit institutions	**7.59%**	**4.90%**	**–**	11.82%	2.89%	–
Borrowings	**10.76%**	**6.03%**	**12.00%**	14.24%	12.60%	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 2016 and 2015 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 2016**	**Sensitivity of interest expense 31 December 2016**
US$	**+0.48%**	**449**
GEL	**+4.00%**	**3,183**

Currency	**Increase in basis points 31 December 2016**	**Sensitivity of interest expense 31 December 2016**
US$	**-0.48%**	**(449)**
GEL	**-4.00%**	**(3,183)**

Currency	Increase in basis points 31 December 2015	Sensitivity of interest expense 31 December 2015
US$	+0.49%	77
GEL	+4.00%	3,485

Currency	Increase in basis points 31 December 2015	Sensitivity of interest expense 31 December 2015
US$	-0.49%	(77)
GEL	-4.00%	(3,485)

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 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 Dollars denominated borrowings that are partially hedged through cash deposits with banks, also denominated in 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 2016. The gross value of foreign exchange fluctuation (gain) hedged equalled GEL 1,986 on both hedged items and hedging instrument.

39. Risk management continued

Market risk continued

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2016 and 31 December 2015 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 2016			
	GEL	US$	EUR	Total
Assets				
Cash and cash equivalents	**13,052**	**10,020**	**167**	**23,239**
Amounts due from credit institutions	**1,044**	**22,832**	**–**	**23,876**
Receivables from sales of pharmaceuticals	**2,156**	**637**	**2,312**	**5,105**
Receivables from healthcare services	**81,927**	**–**	**–**	**81,927**
Other assets: loans issued and lease deposit	**979**	**3,837**	**–**	**4,816**
Total monetary assets	**99,158**	**37,326**	**2,479**	**138,963**
Liabilities				
Accounts payable	**48,122**	**6,499**	**9,746**	**64,367**
Accruals for employee compensation	**15,529**	**472**	**–**	**16,001**
Payable for share acquisitions	**3,113**	**5,294**	**–**	**8,407**
Insurance contract liabilities	**26,623**	**50**	**114**	**26,787**
Debt securities issued	**–**	**36,024**	**–**	**36,024**
Borrowings	**89,996**	**93,475**	**4,086**	**187,557**
Finance lease liabilities	**–**	**14,878**	**–**	**14,878**
Other liabilities	**15,808**	**444**	**–**	**16,252**
Total monetary liabilities	**199,191**	**157,136**	**13,946**	**370,273**
Net monetary position, before derivatives	**(100,033)**	**(119,810)**	**(11,467)**	**(231,310)**
Derivative financial instruments	**(99,595)**	**105,872**	**–**	**6,277**
Hedge accounting position	**–**	**15,629**	**–**	**15,629**
Net monetary position including derivatives	**(199,628)**	**1,691**	**(11,467)**	**(209,404)**
% increase in currency exchange rate		**+13.4%**	**+10.4%**	
Effect on profit before income tax expense		**227**	**(1,193)**	
% decrease in currency exchange rate		**–13.4%**	**–10.4%**	
Effect on profit before income tax expense		**(227)**	**1,193**	

	31 December 2015				
	GEL	US$	GBP	EUR	Total
Assets					
Cash and cash equivalents	52,437	58,428	34,279	9	145,153
Amounts due from credit institutions	6,042	6,203	–	–	12,245
Receivables from healthcare services	65,863	–	–	–	65,863
Other assets: loans issued	4,158	6,156	–	–	10,314
Total monetary assets	128,500	70,787	34,279	9	233,575
Liabilities					
Accounts payable	34,455	1,016	–	–	35,471
Payable for share acquisitions	562	21,513	–	–	22,075
Insurance contract liabilities	21,069	199	–	83	21,351
Debt securities issued	–	35,537	–	–	35,537
Borrowings	92,336	22,272	–	2,617	117,225
Other liabilities	9,195	232	–	–	9,427
Total monetary liabilities	157,617	80,769	–	2,700	241,086
Net monetary position	(29,117)	(9,982)	34,279	(2,691)	(7,511)
% increase in currency exchange rate		+13.95%	+22.61%	+13.60%	
Effect on profit before income tax expense		(1,392)	7,750	(366)	
% decrease in currency exchange rate		–13.95%	–22.61%	–13.60%	
Effect on profit before income tax expense		1,392	(7,750)	366	

As part of its risk management, the Group uses foreign exchange forward contracts to manage exposures resulting from changes in foreign currency exchange rates. As at 31 December 2016 the Group had US$40 million notional value foreign exchange forward contracts.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

39. Risk management continued

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.

40. 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.

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. The tables do not include the fair values of non-financial assets and non-financial liabilities:

	Level 1	Level 2	Level 3	Total fair value 31 December 2016	Carrying value 31 December 2016	Unrecognised gain (loss) 31 December 2016
Assets measured at fair value						
Property and equipment	–	–	409,469	409,469	409,469	–
Other assets: derivative financial assets	–	6,277	–	6,277	6,277	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	23,239	–	23,239	23,239	–
Amounts due from credit institutions	–	–	23,876	23,876	23,876	–
Insurance premiums receivables	–	–	24,207	24,207	24,207	–
Receivables from healthcare services	–	–	81,927	81,927	81,927	–
Receivables from sales of pharmaceuticals	–	–	5,105	5,105	5,105	–
Other assets: loans issued and lease deposit	–	–	4,816	4,816	4,816	–
Other assets: non-medical receivables	–	–	5,599	5,599	5,599	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	170,075	170,075	187,557	17,482
Debt securities issued	–	–	37,546	37,546	36,024	1,522
Finance lease liabilities	–	–	14,878	14,878	14,878	–

40. Fair value measurements continued

Fair value hierarchy continued

	Level 1	Level 2	Level 3	Total fair value 31 December 2015	Carrying value 31 December 2015	Unrecognised gain (loss) 31 December 2015
Assets measured at fair value						
Property and equipment	–	–	3,435	3,435	3,435	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	145,153	–	145,153	145,153	–
Amounts due from credit institutions	–	–	12,245	12,245	12,245	–
Receivables from healthcare services	–	–	65,863	65,863	65,863	–
Other assets: loans issued	–	–	10,314	10,314	10,314	–
Other assets: non-medical receivables	–	–	7,449	7,449	7,449	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	116,883	116,883	117,225	342
Debt securities issued	–	–	36,554	36,554	35,537	(1,017)

The Group carries land and office buildings and hospitals and clinics at fair value (level 3). Reconciliation between opening and closing balances is presented in Note 11.

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.

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 approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable land and buildings respectively.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs comprise forward foreign exchange contracts. The applied valuation technique represents forward pricing model using present value calculations. The model incorporates various inputs including the foreign exchange spot and forward rates.

Impact of changes in key assumptions on fair value of Level 3 assets measured at fair value

Level 3 property at fair value

	31 December 2016	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment							
Land and office buildings	**7,990**	Market approach	Price per square metre, land, building	5-2,284	Square meters, building	123-1,770	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Hospitals and clinics	**401,479**	Market approach	Price per square metre, land, building	3-1,106	Square meters, building	151-30,700	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not already recorded at fair value in the consolidated financial statements.

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)

41. 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 2016			31 December 2015		
	Parent*	**Entities under common control****	**Other*****	Parent*	Entities under common control**	Other***
Assets						
Cash and cash equivalents	**–**	**14,428**	**–**	97,505	7	–
Amounts due from credit institutions	**–**	**8,017**	**–**	5,072	–	–
Insurance premiums receivable	**–**	**1,727**	**–**	1,165	218	–
Other assets: non-medical receivables	**–**	**1,010**	**–**	–	3,742	–
Other assets: derivative financial assets	**–**	**6,277**	**–**	–	–	–
Other assets: loans issued and lease deposit	**–**	**1,999**	**2,547**	–	–	9,954
Prepayments and other assets	**–**	**17**	**–**	3	41	–
	–	**33,475**	**2,547**	103,745	4,008	9,954
Liabilities						
Borrowings	**–**	**37,495**	**–**	34,618	2,066	–
Insurance contract liabilities	**–**	**1,904**	**–**	1,419	178	–
Accounts payable	**–**	**1,949**	**–**	741	229	–
	–	**41,348**	**–**	36,778	2,473	–

	31 December 2016			31 December 2015		
	Parent*	**Entities under common control****	**Other*****	Parent*	Entities under common control**	Other***
Income and expenses						
Net insurance premiums earned	**–**	**3,127**	**–**	2,129	320	–
General and administrative expenses	**–**	**(1,294)**	**–**	(783)	(68)	–
Interest income	**–**	**340**	**–**	768	–	821
Interest expense	**–**	**(4,933)**	**–**	(11,467)	(427)	–
Net gains from foreign currencies	**–**	**6,277**	**–**	–	–	–
Other operating income	**–**	**–**	**–**	–	–	344
Other operating expenses	**–**	**–**	**–**	–	–	(280)
	–	**3,517**	**–**	(9,353)	(175)	885

* As at 31 December 2016 and in the year then ended parent includes BGEO Group PLC figures. As at 31 December 2015 and in the year then ended parent includes both BGEO and JSC Bank of Georgia figures.
** Entities under common control include BGEO Group PLC subsidiaries.
*** Other related parties in 2016 comprise minority shareholder in GNCo, an associate company Geolab and ABC Pharmacy, an entity acquired during subsequent period; other related party in 2015 comprises single entity to which the Group provided management services.

Compensation of key management personnel comprised the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries and cash bonuses	**4,596**	2,867
Share-based compensation	**3,117**	1,089
Total key management compensation	**7,713**	3,956

42. Events after reporting period

IFRS 15 adoption

On 1 January 2017 the Group adopted IFRS 15 applying the modified retrospective application method. For details refer to Note 3.

JSC ABC Pharmacy acquisition

On 6 January 2017 the Group acquired 67% of the shares of JSC ABC Pharmacy ("ABC"), a pharmaceuticals company operating in Georgia from individual investors. As a result of acquisition, the Group increased its presence and investment in the Georgian healthcare market. Management considers that the deal will have a positive impact on the value of the Group. Subsequent to acquisition, GHG will merge ABC with GPC, the existing pharmaceuticals subsidiary of the Group, and the name of the merged company will be JSC Georgian Pharmacy ("GEPHA").

Consideration comprised cash payment of GEL 32,554, a holdback amount with a fair value of GEL 30,041 (payable in five tranches over the five-year period) and non-cash consideration comprising 33% shares in GPC. In accordance with the terms of the deal, the selling shareholders are required to invest 33% of cash proceeds from sale of ABC in GHG shares that will be locked up during the 3 years following the purchase. In addition, the Group and the selling shareholders entered in a call and put options over remaining 33% minority stake in the combined pharma business. Upon exercise of either option, 33% of the cash proceeds received by the selling shareholders will be used to purchase GHG shares, with a lock-up that expires annually in a straight line over two years.

Provisionally estimated unaudited net assets of ABC at acquisition date comprised GEL 39,937. The goodwill is expected to arise from the acquisition consisting largely of the synergy that is expected to be brought into the Group's operations. The Group continues a thorough examination of the net assets and if identified, adjustments will be made to the net assets and amount of the goodwill and accounting for business combination will be complete during the 12-month period from the acquisition date, as allowed by IFRS 3 'Business Combinations'.

Abbreviations

AGM	Annual General Meeting
BGEO	BGEO Group PLC
BGH	Bank of Georgia Holdings plc
CAGR	Compounded annual growth rate
CDC	Centres for Disease Control and Prevention
CDP	Continuing Professional Development Programmes
CEO	Chief Executive Officer
CME	Continuous Medical Education
CRM	Customer Relationship Management
DAC	Deferred acquisition costs
DFI	Development Finance Institution
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EECP	Executives' Equity Compensation Plan
EMC	Medicine Paediatric Centre
EPS	Earnings per share
ESOP	Employee Stock Ownership Plan
EU	European Union
EY	Ernst & Young LLP
FCCS	Fundamental Critical Care Support
FDI	Foreign direct investment
FTSE	Financial Times Stock Exchange
GBP	Great British Pound, national currency of the UK
GDP	Gross domestic product
GEL	Georgian Lari or Lari, national currency of Georgia
GHG	Georgia Healthcare Group
GIMPHA	Georgian International Medical and Public Health Association
HAI	Healthcare Associated Infections
HRMS	Human Resources Management System
HTMC	High Technology Medical Centre University Clinic
IASB	International Accounting Standards Board
IBNR	Reserves for claims incurred but not reported
IC	Infection Control
ICU	Intensive Unit Care
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPC	Inter-process communication
IPO	Initial Public Offering
ISO	International Organisation for Standardisation
ISSSG	Insurance State Supervision Service of Georgia
IVF	In Vitro Fertilisation
JCI	Joint Commission International
KBO	Key Business Objectives
KPI	Key Performance Indicator
MoU	Memorandum of Understanding
NBG	National Bank of Georgia
NCDC	National Centre for Disease Control and Public Health
NICU	Neonatal Intensive Care Unit
OOP	Out of Pocket
PGT	Preimplantation Genetic Testing
PICU	Paediatric Intensive Care Unit
QSI	Quality and Safety Indicator
RBNS	Reserves for claims reported but not settled
ROAE	Return on Average Equity
SIP	State Insurance Programme
SOP	Standard operating procedures
SSA	Social Service Agency
THUAS	Hague University of Applied Sciences
ToT	Trainers of Trainers
UHC	Universal Healthcare Programme
UPR	Unearned premiums reserve
WACC	Weighted Average Cost of Capital

Glossary

Administrative salary rate	Administrative salaries and other employee benefits divided by gross revenue excluding corrections and rebates.
Average length of stay	Number of inpatient days divided by number of patients. This calculation excludes data for the emergency department.
Bed occupancy	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")	Equals receivables from sales of pharmaceuticals divided by cost of pharma.
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 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	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	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 EPS	Normalised profit for the period attributable to shareholders divided by the weighted average number of shares outstanding during the same period.
Normalised profit	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).
Normalised ROAE	Normalised profit for the period attributable to shareholders divided by average equity attributable to shareholders for the same period net of unutilised portion of IPO proceeds.
Operating leverage	Difference between percentage increase in gross profit and percentage increase in total operating costs.
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 total equity ("ROAE")	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.
Selling, general and administrative expenses rate ("SG&A rate")	General and administrative expenses divided by gross revenue excluding corrections and rebates.

Shareholder information

Annual General Meeting

The Annual General Meeting will be held at 10:00 am (London time) on 1 June 2017 at the offices of Baker & McKenzie, 100 New Bridge Street, London, EC4V 6JA, UK. Details of the business to be conducted at the AGM are contained in the Notice of AGM which will be mailed to shareholders who have elected to receive hard copies of shareholder information on or about 2 May 2017, and will be available on the Company's website http://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)370 702 0000.

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE
United Kingdom
Email: web.queries@computershare.co.uk

GEORGIA
HEALTHCARE
GROUP

Georgia Healthcare Group PLC
84 Brook Street
London
W1K 5EH
http://ghg.com.ge

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 68 to 71. 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.

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