GEORGIA HEALTHCARE GROUP

A long-term, high-growth investment story

Georgia Healthcare Group PLC

Annual Report 2015

Who we are

GEORGIA HEALTHCARE GROUP

Georgia Healthcare Group PLC ("GHG" or "the Group") is the UK incorporated holding company of the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. We offer by far, 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 four ambulatory clusters (with ten ambulatory clinics), as at 31 December 2015.

We are the single largest market participant, accounting for 26.6% of total hospital bed capacity in the country as of 31 December 2015. We are also the largest provider of medical insurance in Georgia, with a 38.4% market share based on net insurance premiums earned and have approximately 234,000 insurance customers as at 31 December 2015. We employed a total of c.9,700 people as at 31 December 2015, including 2,705 physicians.

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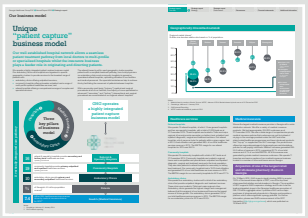

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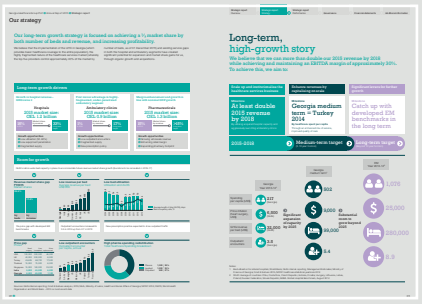

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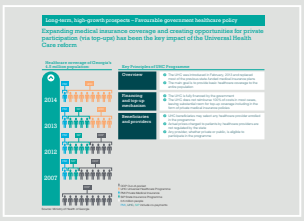
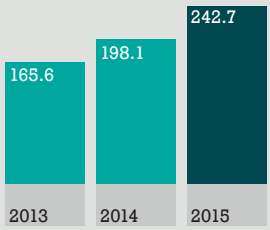


Read this report online
Find the digital version of this report on our corporate website at: **www.ghg.com.ge**

Financial highlights

The effectiveness of our strategy is reflected in the record 2015 financial results highlighted below.

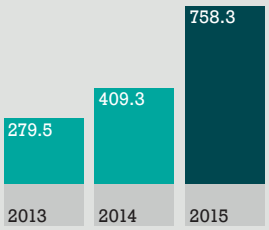
GHG Revenue (GEL million)



242.7

+22.5% y-o-y

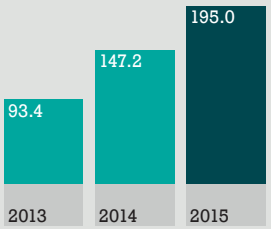
Total assets (GEL million)



758.3

+85.3% y-o-y

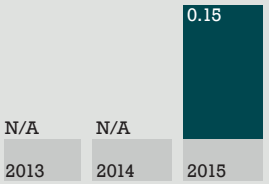
Healthcare services revenue (GEL million)



195.0

+32.5% y-o-y

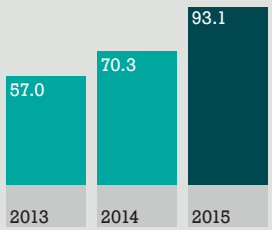
Earnings per share (GEL)



0.15

N/A

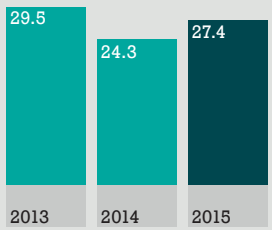
Gross profit (GEL million)



93.1

+32.5% y-o-y

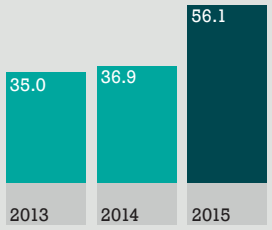
EBITDA margin



27.4%

+3.1ppts y-o-y

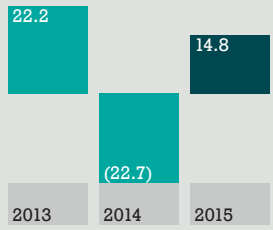
EBIDTA (GEL million)



56.1

+52.3% y-o-y

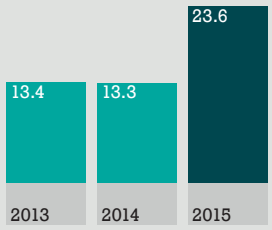
Operating leverage



14.8%

+37.5ppts y-o-y

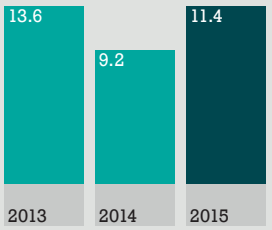
Profit (GEL million)



23.6

+78.1% y-o-y

Return on Average Equity (Adjusted)[1]



11.4%

+2.2ppts y-o-y

1 We show Adjusted Return on average total equity ("Adjusted ROAE") to exclude the effect of the IPO, which was completed in November 2015. Adjusted ROAE equals Profit for the period attributable to shareholders of the Company divided by average equity attributable to shareholders of the Company for the same period net of IPO proceeds.

Operating highlights

2015 operating highlights reflect the growth strategy.

Number of hospitals

35

+2 (over 2014)

Number of ambulatory clusters

4

+3 (over 2014)

Number of hospital beds

2,670

+530 (over 2014)

Number of physicians

2,705

+311 (over 2014)

Number of nurses

2,738

+474 (over 2014)

Referral hospital bed occupancy rate

59.3%

+3.9 ppts (over 2014)

Organic growth rate of healthcare service revenue

17.3%

+4.4ppts (over 2014)

Number of insured

234,000

c.75,000 (over 2014)

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 four ambulatory clusters, as at 31 December 2015.

GHG's[1] market leading position, its unique business model with significant growth potential, and its experienced management team make it a compelling investment story.

The first class leaders of our medical team are driving the improvement of service quality and access to healthcare across the organisation. This enables us to capitalise on existing service gaps and overall lower quality of medical care in the country and on the other hand improved access to healthcare services through the Universal Healthcare Programme (UHC) financing.

1 Market leader

- **Largest market share in Georgia with revenue upside:** 26.6% market share by number of beds (2,670), which is expected to grow to c.30.0% as a result of renovation of recently acquired hospital facilities, scheduled for completion in 2016 and 2017 (additional c.500 beds)[2]
- **Largest medical insurer:** c.234,000 persons insured and 38.4% market share[3]
- **Widest population coverage:** coverage of over ¾ of Georgia's 4.5 million population with 45 high-quality hospitals and ambulatory clinics[4,5]
- **Institutionalising the industry:** strong corporate governance; standardised processes; improving safety and quality by implementing Joint Commission International (JCI) benchmarked standards; own personnel training centre

2 Synergistic business model

- **The single largest scale player** in Georgia's healthcare market with **cost advantage** through scale: purchasing, centralisation of administrative functions, training centre
  - Next competitor has only 5% market share by beds and less than 3% market share by hospital revenue
- **Better access to professional management and high-calibre talent**
  - One of the largest employers in the country: c.9,700 full time employees, including 2,705 physicians[4]
- **Referral system & synergies with insurance:**
  - Presence along patient pathway, and referral synergies
  - Insurance activities provide steady revenue stream for our ambulatory clinics and bolster hospital patient referrals

3 Long-term high-growth opportunities

- **Very low base:** healthcare services spending per capita only US$217, outpatient encounters only 3.5 per capita annually[6], GHG revenue per hospital bed only US$32,000[4]
- **Supported by attractive macro:**[7] Georgia – one of the fastest growing countries in Eastern Europe, open and easy[8] emerging market to do business, with real GDP growing at a CAGR of 5.3% between 2005-14. Only 5.8% of GDP spent on healthcare services and spending on healthcare services growing at 9% CAGR 2008-2013; government spending nearly doubled between 2011-15[9]
- **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[10]
  - Even small investments in medical equipment expected to increase market

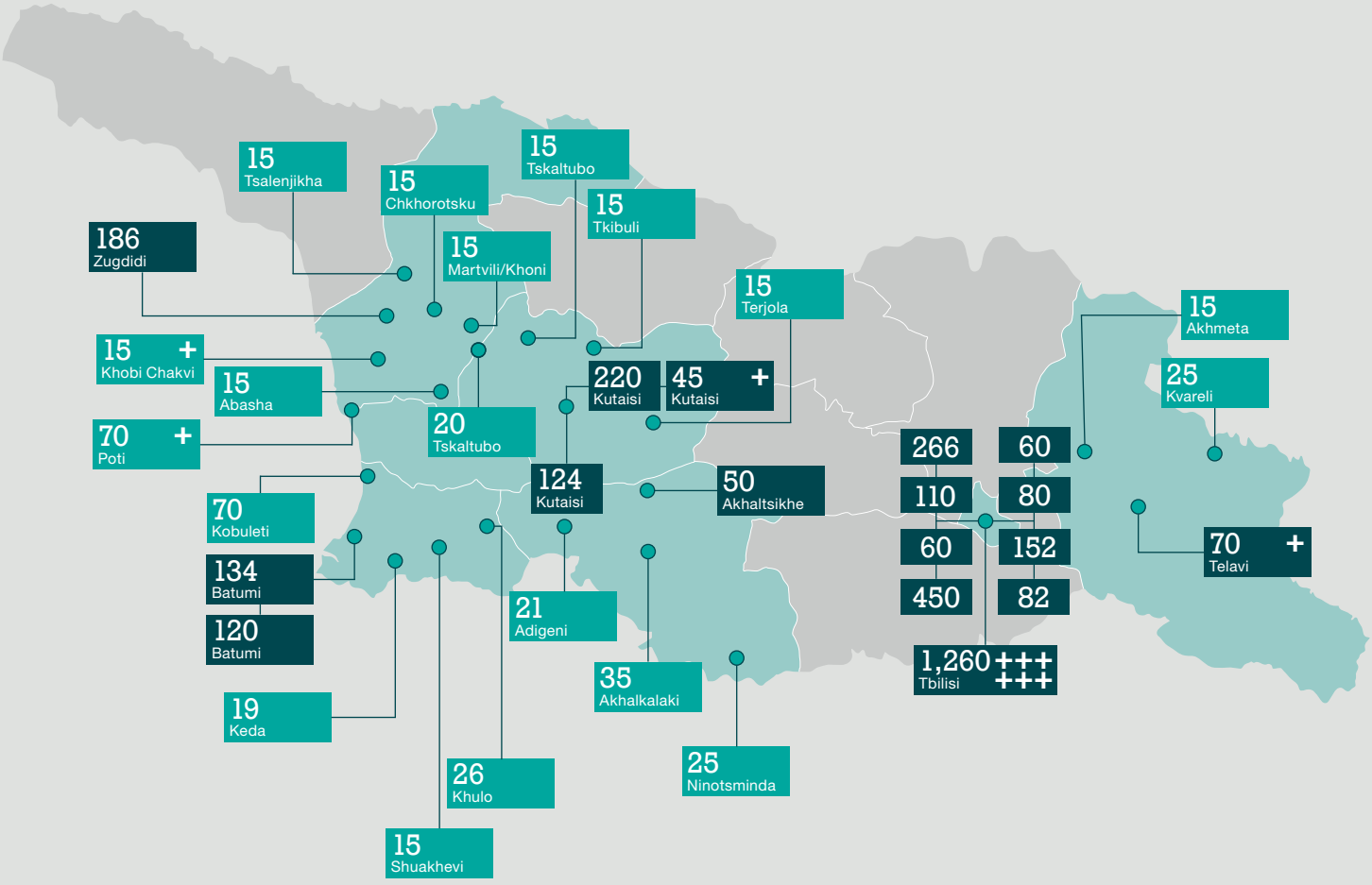
4 Strong management with proven track record

- **Strong business management team – increased market share by beds from under 1% in 2009 to 26.6%** currently, with built-in additional development capacity
- **Achieved our target of c.30% EBITDA margin ahead of time, delivering 29.8% EBITDA margin in 4Q15**
- **Robust corporate governance:** exceptional in Georgia's healthcare sector, as it is the only premium listed company from healthcare sector (LSE:GHG LN)[11]; 65.07% shareholder is BGEO Group PLC – 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 predominantly owned by other Institutional Investors
- In-depth knowledge of the local market

Notes:
1 Georgia Healthcare Group established in Georgia and in UK
2 Market share by number of beds. Source: National Centre for Decease Control, data as of December 2014, updated by Company to include changes before 31 December 2015, Additional development capacity at Deka and Sunstone of c.500 beds
3 Market share by gross revenue; Insurance State Supervision Service Agency of Georgia as of 30 September 2015
4 GHG internal reporting
5 Geostat.ge, data as of 1 January 2014. Coverage refers to geographic areas served by GHG facilities
6 National Centre for Disease Control and Public Health (NCDC) 2014
7 Euromonitor, World Bank's 2012 "Ease of Doing Business Report", other public information
8 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.
9 Ministry of Finance, Ministry of Economy
10 Frost & Sullivan 2015
11 GHG Group PLC successfully completed its IPO of ordinary shares at the Premium Segment of LSE on 12 November 2015

Extensive geographic coverage[1]

Network of healthcare facilities



N Referral and specialty hospitals

N Community hospitals

\+ \+ Ambulatory clinics

Regions where GHG is present

3/4 of population covered

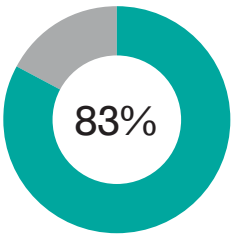
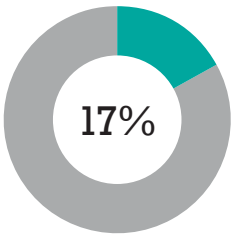
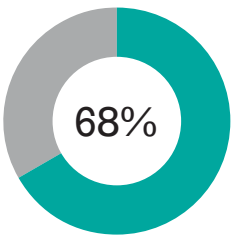
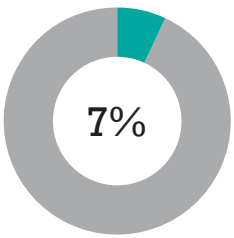
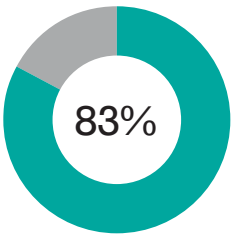
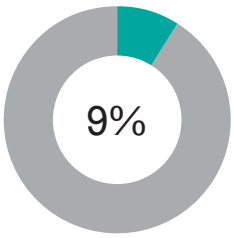
2,670 hospital beds

45 healthcare facilities

Note:
1 GHG internal reporting

At a glance continued

Segment overview

Key segments	Healthcare services	
	Referral and specialty 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	GEL 1.2 billion (2015)[1]	
Market share	18% by revenues **26.6% by beds** (2,670), which is expected to grow to c.30.0% as a result of renovation of recently acquired hospital facilities (additional c.500 beds)	
Selected operating data 2015	16 hospitals 2,209 beds 	19 hospitals 461 beds 
Financials 2015 **Revenue Net[3]** **GEL 239.1 million**	GEL 168.5 million 2012-2015 CAGR **64%** 	GEL 17.6 million 2012-2015 CAGR **12%** 
EBITDA **GEL 56.1 million**	GEL 46.9 million 2012-2015 CAGR **70%** 	GEL 4.8 million 2012-2015 CAGR **24%** 
	EBITDA Margin[2]: 28.0%	EBITDA Margin[2]: 27.7%

Notes:
1 Frost & Sullivan analysis, 2015
2 EBITDA margins are based on gross of intercompany eliminations as well as gross of head office and management costs
3 Revenue net of corrections & rebates, and intercompany eliminations

Ambulatory clinics

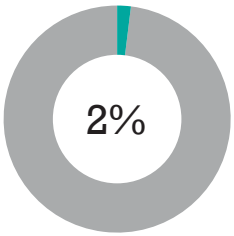
Outpatient diagnostic and treatment services in Tbilisi and major regional cities

GEL 0.9 billion (2015)[1]

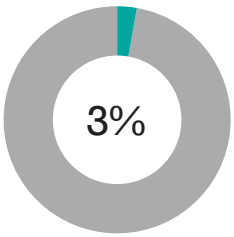
1%

10 clinics

GEL 5.3 million
2012-2015 CAGR
9%



GEL 1.8 million
2012-2015 CAGR
33%



EBITDA Margin[2]: 30.5%

Medical insurance

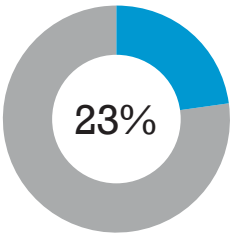
Range of private insurance products purchased by Individuals and employers

GEL 0.14 billion (2015)[1]

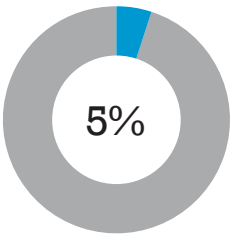
38%

234,000 insured

GEL 55.3 million
2012-2015 CAGR
14%



GEL 2.6 million
2012-2015 CAGR
-15%



EBITDA Margin[2]: 4.7%

Notes:
1 Frost & Sullivan analysis, 2015
2 EBITDA margins are based on gross of intercompany eliminations as well as gross of head office and management costs

Chairman's statement

2015 was an eventful year for GHG. The Company is well positioned to deliver on its strategy of doubling its 2015 healthcare revenues by 2018.

Dear Shareholders,

2015 was an eventful year for Georgia Healthcare Group. The Company successfully completed its public listing on the premium segment of the London Stock Exchange and raised US$100 million to fund its expansion plans. I would like to thank all our new shareholders for their support throughout the process. The capital we raised supports our growth plans and our target to double 2015 healthcare revenues by 2018, while achieving c.30% EBITDA margin. This target will be achieved by expanding GHG's market share in the hospital segment by number of beds from the current 27% level to c.30%. Following the IPO, GHG has already accelerated the complete renovation of two hospitals, and is in the process of rolling out a nationwide chain of ambulatory clinics – the first of its kind in the country – where GHG's revenue market share is currently just 1% and its aim is to grow this to c.5% by the end of 2018. Introducing new services – treatments which are currently not available in Georgia – will be another contributor to this growth. The Company's own growth plans are underpinned by the government's ongoing initiatives to make healthcare more accessible to all Georgians. You will be able to read about how GHG aims to deliver on each of its strategic pillars later in this report.

In this letter I would like to focus on four key topics:

1. Georgia turns 25;
2. Expansion into pharmaceutical retail and wholesale business;
3. Good governance leads to good returns; and
4. Management make things happen.

Georgia turns 25:

In 2015 Georgia celebrated its 25th anniversary as an independent state. Although the country is over three millennia old, it was reborn when the Soviet Union collapsed in 1991. In its recent history Georgia has managed to transform itself from a corrupt and failed state into a young democracy with a rapidly growing economy, supported by a pro-business reforms. Over this period of time, GDP per capita has increased from US$500 to US$3,700 and, over the last 12 years, on the back of the reforms, real GDP has grown by average of 6%. Let me give you a brief summary as to why and how this has happened.

Georgia's independence in 1991 turned out to be a very expensive economic exercise. By 1995, Georgia's real GDP collapsed to 28% of its 1990 level. This resulted in desperately poor and lawless society with no electricity, no gas, no heating, no telecommunication, no roads and no healthcare. In the 1990s Georgia also fought three civil wars and ended up losing 20% of its land. The second half of the 1990s was marked by declining crime rates, but also widespread corruption, weak state institutions and continued poverty. Therefore, people of Georgia demanded radical change and after the Rose Revolution in 2003, the new government managed to eradicate corruption and initiate pro-business reforms, among which was a reduction of the number of taxes from 21 to only six currently. In addition, the government embarked on a mass privatisation process while building strong state institutions. In 2016, the World Bank named Georgia as the top reformer globally over the past 12 years in its Ease of Doing Business Survey. The country ranks as one of the least corrupt in surveys done by Transparency International, and Trace International and Georgia is consistently ranked as the top performer in country policy and institutional assessments compiled by different organisations. Supported by a corruption-free environment and Ease of Doing Business reforms, the flow of foreign direct investment (FDI) has remained strong, standing at 9.7% of GDP in 2015.

In 2012, Georgia took yet another important step towards strengthening its democracy. Following parliamentary elections the country experienced a democratic and peaceful transfer of power – for the first time in recent history. The Georgian Dream coalition won the election and promised a more independent judiciary, an even better business environment, free media and healthcare for the entire population. In three years, the new government has managed to deliver on its promises and its healthcare reform is widely regarded as one of the government's biggest achievements. The newly appointed Prime Minister has put forth new reform initiatives to boost growth and accelerate foreign investments. These new reforms aim to reduce corporate profit tax to zero, invest more in infrastructure, invest in labour market-driven education and create a single touchpoint for corporates to deal with the government institutions – making it even easier to do business in Georgia. The leading political parties recognise the need for a good business environment to attract FDI, which investment continues to play a crucial role in the country's success. FDI (Foreign Direct investment) has averaged 10.0% of GDP in the past ten years, and with its business-friendly environment – ease of doing business, professional and independent state institutions, and a corruption-free environment – Georgia is firmly on the path to becoming the investment and services hub of the region. With visitor numbers growing from 560,000 in 2007 to nearly 6 million in 2015, Georgia has the potential to also become the financial and healthcare services hub of the region.

In this very short period of time, the Georgian population has managed to develop and grow the country. I have

been closely observing this remarkable transformation and the key take-away for me is the following: unless a corrupt and dysfunctional state goes fully bust, it is difficult to transform it. Once a transformation starts, it is difficult to stop it.

Expansion into pharmaceutical retail and wholesale business:
In March 2016 we announced one of our largest acquisitions and a move that marked our expansion into pharmaceutical distribution business. Initially, we did not actively plan to go into the pharmaceutical business Instead we worked on projects to independently secure and optimise our pharmaceutical supply chain for the hospitals, the ambulatory clinics and our medical insurance business. However, when an opportunity to acquire a pharmaceutical distributor presented itself, GHG's management team saw this as a strategic fit and since they were able to conclude it on very attractive terms, this was to me and the Board a "must-do" deal. Subject to regulatory approvals, GHG signed a binding Memorandum of Understanding to acquire GPC, the third largest pharmacy chain in Georgia. This move supports our aim of being the leading integrated player in the Georgian healthcare ecosystem – a GEL 3.4 billion market. It positions GHG as the major purchaser of pharmaceutical products in Georgia. The acquisition price of GPC implies 5.7 times EV/EBITDA before eliminating unnecessary costs and capturing further cost and revenue synergies. Post-synergy this is reduced to 3.3 times. The pharmacy business will be highly synergistic both to reduce the cost of pharmaceuticals for our hospitals and medical insurance business as well as to crosssell through GPC's loyalty programme. GPC has c.12 million customer interactions per annum, and a strong brand. GHG will open GPC pharmacies on the premises of its c.40 hospitals and large ambulatory clinics, which is expected to significantly boost the revenue of GPC. The move is strategic and I strongly believe it will create huge shareholder value going forward.

Good governance leads to good returns:
We at GHG, strongly believe that great institutions are only built with robust governance, and that, without it, they cannot deliver sustainable value for their shareholders. We think that a high-quality, diverse and independent Board is extremely important for the success of the Company. We see the Board as an institution, which is not only performing its fiduciary duties of management oversight and strategy setting, but also providing guidance and coaching to our top and mid-level executive management team.

In the case of GHG, the Board's role of oversight is made relatively straightforward by naturally aligning the interests of the shareholders and the management team. To achieve this, we award long-term vesting shares (up to five years) to the management team and ensure that share compensation makes up a large proportion (e.g. 80-90%) of total annual compensation. In this way, we create a long-term alignment between the interests of the management team and the shareholders. If shareholders make money, the management team makes money and if the shareholders lose money, the management team also loses money. With this simple approach, in addition to being executives, the management team feels and acts more like shareholders – because they are.

Out of nine Board members, seven are independent and six are non-BGEO Group members. The Board meets every quarter to discuss and set strategy, to approve key projects and transactions and to review and approve recommendations from the committees: Audit, Clinical, Remuneration and Nomination.

We have a diverse Board. David Morrison is our Senior Independent Board member, who also chairs our Audit Committee. He is well aware of our fiduciary responsibilities, and regulatory obligations, and knows very well how checks and balances work in a public company. His long tenure at Sullivan and Cromwell serves him well in this regard. Neil Janin heads our Nomination and Remuneration Committees. His management consulting work for 25 years with McKinsey serves the GHG Board and management team very well. Neil spends time with the management team to help them brainstorm on different strategic issues and provides invaluable guidance. Neil's management coaching skills and out-of-the-box thinking serve both the Board and the management well. Both Neil and David have an in-depth understanding of Georgia, as they have been Board members at the BGEO Group for the past 6 years. Tim Elsigood is our hospital guru. He has extensive experience of running hospital businesses in Western, Central and Eastern Europe, as well as in North Africa. Tim knows very well what works and what does not work in the hospital business, which makes it easy for us to understand the strategic priorities for GHG. Dr. Michael Anderson heads our Clinical Quality and Safety Committee. As a doctor, he has great input into how to improve the quality of our services. Ingeborg Oie, a healthcare research analyst and MD at Jefferies and a research analyst at Goldman Sachs, helps us to better understand investors' ways of thinking and the Company's long-term strategy. Jacques Richier, another independent director, is CEO of Allianz France. His input in making strategic decisions for our medical insurance business is critical. Allan Hirst's extensive experience as CEO of Citibank in multiple countries helps us to better understand our government relations strategy. The Board is extremely motivated and engaged in making GHG a successful institution and ultimately creating strong value for shareholders.

Management make things happen:
Back in 2010 after the global financial crisis, Bank of Georgia's intention was to divest its insurance subsidiary to raise capital. At the time Nick Gamkrelidze was CEO of our insurance company, Aldagi. Before making the decision to sell, the Board called in Nick to understand his plans in more detail. Nick presented the strategy of entering into the healthcare services sector, consolidating it and integrating it with our existing medical insurance business. The healthcare sector was ten times larger than the insurance sector and totally fragmented. The Board was convinced by Nick that investing in the healthcare business presented a much bigger opportunity than raising money from its divestment. Indeed, after embarking on the healthcare strategy, in less than five years Nick successfully led the transformation of a loss making company into a business with a market capitalisation of US$350 million following last year's successful IPO. Nick is a visionary leader, with great execution skills. He learns fast and develops even faster, and he has not been shy to surround himself with a team of top class executives. The management team of GHG is young, smart, energetic, and gets things done in a fast and efficient manner. The management team has demonstrated that it can grow the business organically as well as through acquisitions. In the past five years the management team has completed over 30 successful acquisitions and integrations. Identifying and eliminating unnecessary costs and extracting synergies is in the DNA of this organisation. In Georgia, we do not have middle names, but if GHG's management team had one it would be "efficiency".

The management team at GHG is extremely motivated to develop themselves, the Company and the country's healthcare system. Together with all the employees of GHG, they are not only building a great Company, but more importantly raising the standard of healthcare in the country. I am extremely honoured to have the opportunity to serve as Chairman of this great institution – one that we aim soon to be a billion Dollar company.

Irakli Gilauri
Chairman of Georgia Healthcare Group PLC

Chief Executive Officer's statement

2015 capped an extraordinary two-year growth period for Georgia Healthcare Group.

During the course of 2014 and 2015, the Group grew its operations substantially further becoming clear market leader among healthcare services and medical insurance providers in Georgia.

At the end of 2015, we had 35 hospitals with 2,670 hospital beds representing a substantially increased market share of 26.6% of Georgia's total hospital beds. In addition, in 2015 we began to implement our ambulatory clinic strategy to develop a nationwide chain of ambulatory clinics, and have already opened four clusters of ambulatory clinics by the end of 2015.

In November 2015, following our listing on the Premium Segment of the London Stock Exchange, we also became the first Georgian company outside of the financial sector with shares trading on an international stock market. As part of this process, we raised c.US$100 million for further investment in the development of the business over the next two-three years. Recently we also become a member of the FTSE All Share Index.

The 2015 results clearly reflect these significant developments and I am pleased to report a net profit of GEL 23.6 million, a 78.1% increase year-on-year. This profit was achieved despite the impact of a currency exchange adjustment relating to the proceeds received from the capital raise and before the positive impact of utilising some of the proceeds to reduce the Group's existing indebtedness. Adjusting for these two issues, our run-rate net profit for the fourth quarter of 2015 was GEL 9.5 million, or GEL 28.0 million for the full year. We expect significant improvement in our earnings from the first quarter of 2016 onwards, due to reduced expenditure on interest – we repaid GEL 104.4 million borrowings at the end of 2015/ beginning of 2016, from IPO proceeds. This reduced total borrowings to GEL 105.6 million as at 31 January 2016. As a result, our net debt to EBITDA was zero at the end of 2015, since cash and bank deposits exceeded borrowings.

Revenue, at GEL 242.7 million for the year, increased by 22.5% y-o-y, supported in particular by strong 17.3% organic growth in the Healthcare Services business, where revenue increased by 32.5% to GEL 195.0 million. Margins in the Healthcare Services business also improved significantly with an EBITDA margin for the year of 27.4%, compared to 24.3% in 2014. This improvement reflects the increasing utilisation and scale of our business as well as the capturing of ongoing efficiency savings and procurement benefits from the integration of recently acquired hospitals. In the fourth quarter of 2015, this margin increased further to 29.8%, towards our target of c.30% EBITDA margin. We benefit significantly from our economies of scale and this was reflected in 14.8 percentage points of positive operating leverage during the year. We expect to deliver strong levels of organic growth in 2016, as we have done in previous years, with margins enhanced year-on-year together with positive operating leverage, which is one of the metrics we follow closely.

The increased focus on the Universal Healthcare Programme in Georgia has seen a substantial shift in revenue towards the healthcare services market, leading to a significant industry-wide reduction in medical insurance revenue from the previous State Insurance Programme (SIP). As a result, our medical insurance business experienced a 20.8% reduction in revenue during the year. Against this backdrop, it delivered an extremely resilient performance by refocusing on the private medical insurance market, where we grew our revenues by 32.0% as a result of introducing a differentiated product suite and improved pricing. Costs remained well managed and the combined ratio improved by 2.8 percentage points during the year to 96.7%. EBITDA from the insurance business more than doubled to GEL 2.6 million. Net profit increased by 76.4% to GEL 1.8 million. Price increases to a number of insurance products (in response to the impact of the Lari devaluation in 2015) leaves the business in good shape for 2016. Apart from focusing on capturing further benefits of scale, the main Key Performance Indicator (KPI) for our insurance business in 2016 will be capturing more synergies with our high margin outpatient business and retaining at least twice as much claims within our own outpatient network.

We made significant progress in each of our strategic priorities during the year. At our healthcare services business, we continued to expand significantly in the

higher revenue hospital segments in Tbilisi with the acquisition, in August 2015, of the High Technology Medical Centre University Clinic (HTMC). This acquisition of the single largest hospital and former competitor in the country increased our market share by hospital beds to 26.6%, as well as enabling us to be represented in the higher margin diagnostics and oncology segments in Tbilisi. Furthermore, we have already started renovation work on both our, Deka and Sunstone hospital facilities. These two newly modernised multi-profile hospitals are expected to be fully completed and operational in 2017. Our strategy to increase our share of healthcare revenues through the roll-out of a national network of ambulatory clinics has begun. By the end of January 2016 we had opened four ambulatory clusters in a number densely populated areas of Tbilisi and one in Kutaisi, the second largest city in Georgia. We plan to open at least six further ambulatory clusters in Tbilisi and other major cities in Georgia during 2016. This is an extremely significant growth opportunity for the Group over the next few years; we plan to build significant market share in what is a highly-fragmented and high-margin segment of a market in which we currently have only approximately 1% share of the market.

We have recently moved into the pharma business by agreeing to acquire a 100% equity stake in JSC GPC ("GPC") (the acquisition remains subject to relevant regulatory approvals). GPC is the third largest pharmaceutical retailer and wholesaler in Georgia, and its acquisition clearly fits our strategy to be the leading integrated player in the Georgian healthcare eco-system. It positions us as a major purchaser of pharmaceutical products in Georgia and offers very important synergies to capture through decreased cost of goods sold in our services business. Moreover, GPC's strong customer loyalty franchise, with one million monthly customer interactions and 0.5 million members of its loyalty programs, is expected to feed referrals to GHG's ambulatory clinics, further enhancing our existing "patient capture" model. In this letter I would also like to welcome GPC's management team and more than 1,600 employees to our Group.

The breadth and depth of the expertise and persistent efforts of our senior and middle management team have been instrumental in delivering our growth strategy and we remain firmly on track to more than double 2015 healthcare services revenues by 2018. Healthcare services revenue increased by 32.5% year-on-year in 2015 with organic revenue growth of more than 17%, which was supplemented by the impact of acquisitions completed over the last few years. In addition to the significant business opportunities available over the next few years, we continue to expect the overall Georgian healthcare services market revenue to grow at a compound rate that exceeds 13% per annum during the 2014-18 period.

There are still many service gaps in Georgia which, as the largest provider of healthcare services in the country, GHG is focused on covering. In 2015 we successfully introduced new services to the country including liver transplant surgery, children's cardiosurgery, oncologic radiotherapy in western Georgia and many other services. There is still a significant pipeline of similar services to explore and our team is constantly working to close these service gaps so as to enable us to fulfill our mission to provide Georgian citizens with access to high-quality healthcare services without leaving the country.

Recruiting and retaining highly skilled personnel, both on senior as well as middle level, is one of our top priorities, considering the growth dynamics and current gaps in certain fields in Georgia. Therefore we will be further working on development and expansion of our management bench in 2016 to support our growth plans. We particularly focus on the training and education of our staff, as well as sourcing a new generation of medical personnel. We remain the only healthcare institution in Georgia to have in-house training of our own personnel. Since the beginning of 2014, we have invested over GEL 3.0 million in training and have a dedicated staff of 45 trainers, largely focusing on the areas of nursing and critical care. Developing a new generation of nurses and doctors is high on our agenda; to address this we facilitated the opening of a nursing college at the leading medical university in Georgia and have launched residency programmes in over ten fields. Both of these initiatives are fully operational now and we expect the young generation of doctors and nurses to further improve the quality of care for our patients.

In the medical insurance business, we plan to leverage opportunities from the reform of the Georgian healthcare sector to increase our private medical insurance customer base. During 2015, we increased our market share from 36.0% to 38.4%, whilst growing our revenues from private medical insurance products by 32%. There are significant synergies between our healthcare services and medical insurance businesses and the insurance business is playing a significant role in our ambulatory business expansion strategy. During 2015, for example, only GEL 3.5 million or 33.7% of total ambulatory claims was paid to ambulatory clinics within the Group. We expect that this number should double at least in 2016.

From a macroeconomic perspective, Georgia's performance has been remarkably resilient against the challenging backdrop in which many of Georgia's regional trading partners have suffered economically as a result of falling oil prices. During 2015, Georgia delivered real GDP growth of 2.8%, whilst inflation was maintained below the 5% target range. Foreign Direct Investment continued to be strong; tourist numbers – a significant driver of US$ inflows for the country – continue to rise and, as a result, the Georgian Government's fiscal position continues to be strong. The Universal Healthcare Programme remains a significant priority for the Government and Government expenditure on healthcare will increase by 81.4% from GEL 487.9 million in 2013 to GEL 885.0 million in 2016 according to the approved government budget. This ongoing increase in expected Government healthcare spending underpins the substantial organic growth opportunities for the Group. The Government's budgeted spend on healthcare, however still remains low compared to many other countries at just over 2% of GDP and approximately 7% of annual tax revenues.

As a result Georgia Healthcare Group is in extremely good shape to benefit over the next few years from the combination of its position as the largest healthcare services and medical insurance provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. We have grown rapidly in recent years, driven by the significant organic expansion of existing facilities, and by selectively acquiring and integrating a number of complementary businesses and assets. We expect the Government to continue to prioritise healthcare services and this, combined with both organic and further acquisition opportunities, leaves the Group well positioned to deliver strong growth in 2016 and beyond.

Nikoloz Gamkrelidze
CEO of Georgia Healthcare Group PLC

This Strategic Report, set out on pages 2 to 66 was approved by the Board of Directors on 7 April 2016 and signed on its behalf by Nikoloz Gamkrelidze, Chief Executive Officer.

Nikoloz Gamkrelidze
Chief Executive Officer

Highly experienced management team with proven track record

Our Board of Directors and senior management team includes individuals with extensive experience in relevant fields including healthcare entrepreneurship and management, strategy and legal advisory, national healthcare policy setting, healthcare research analysis, financial services and advisory.

This team includes individuals who have held leading roles at institutions such as McKinsey & Company, JP Morgan Chase, EBRD, Sullivan & Cromwell, Bank of Georgia Holdings, Citibank, Smith & Nephew, Jefferies, Capio UK, Chelsea and Westminster Hospital, Allianz, EY and AstraZeneca, among others. Our senior management team have an average of 11 years of management experience in the healthcare services and medical insurance markets and have implemented numerous strategic initiatives that have been integral to our continued growth.

The senior management team is supported by executives and management personnel comprised of physicians and professional managers with extensive industry experience and expertise and, in many cases, long-standing experience in the healthcare or insurance industry. In particular, to ensure high clinical standards the Company has recruited select clinicians with extensive prior experience with leading western institutions such as the Division of Neonatology, University of Kentucky, the Oldenburg Cardio Surgery Centre (Germany), Treviso Regional Hospital General (Italy) and the Northwestern Memorial Hospital (Chicago).

The market knowledge and experience of our management team is instrumental to our structured approach to both organic growth and acquisitions. Our strong business management team has increased market share by beds from under 1% in 2009 to 26.6% currently, with additional organic development capacity of up to approximately 30% from hospital renovations planned during 2016 and 2017. Since the opening of our first ambulatory clinic in 2006 we have acquired and integrated 25 hospitals and ambulatory clinics and built or renovated a further ten facilities. We have grown our asset base from GEL 109.2 million (as at 31 December 2011) to GEL 758.3 million (as at 31 December 2015) and added 1,495 beds. For each acquisition or development, we form a multi-disciplinary integration team of senior executives covering the healthcare services and engineering, operations, finance, human resources, public relations, commercial and sales and legal functions. The team monitors and coordinates the integration process following established procedures. After completing the more immediate tasks of integrating financial systems and human resources, we focus on modernisation and the assessment and standardisation of service quality.

Overview of key historical milestones[1]

2004
- Acquisition of BCI, one of the leading insurance companies in Georgia
- Build on the strategy of an integrated business model for the Bank of Georgia

2005
- Acquisition of insurance company Selbi
- Acquisition of Europace, a leading Georgian insurance company, becoming the second largest insurer in Georgia as a result of this transaction

2006
- Acquisition of Aldagi, then the leading insurance company in Georgia
- Entrance into healthcare services business by opening an ambulatory clinic in Tbilisi

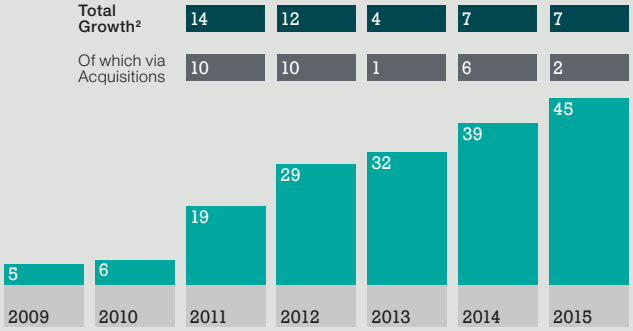
2008
- Acquisition of a multi profile hospital in Kutaisi, West Georgia

2010
- Investment in building five community hospitals and one referral hospital

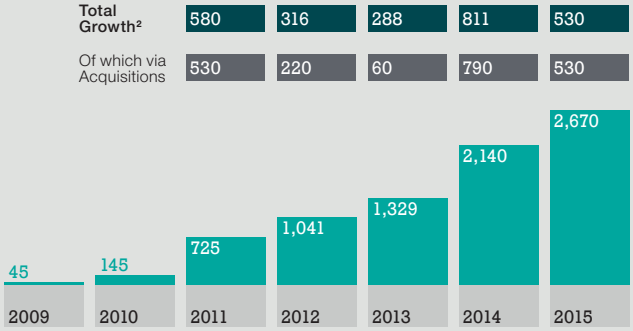
Note:
1 GHG internal reporting

Led by a highly experienced management team, GHG has successfully acquired and integrated more than 25 companies in the hospital and insurance sectors over the past decade.

Growth in number of clinics[1]



Growth in number of beds[1]



2009

- Acquisition of Avante Hospital Management Group that owns four hospitals, with a total of 578 beds, located in Tbilisi and Batumi

2010

- Reorganisation of Aldagi into a pure-play healthcare business (GHG, comprising of Evex and Imedi L) and P&C insurance business (Aldagi)

2011

- Acquisition of 11 new hospitals in West Georgia (Block)
- Acquisition of Partner, the 12th largest insurer in Georgia with a 1.3% market share by revenue in the non-life market

2012

- Acquisition of Imedi L, one of the leading insurance companies in Georgia (addition of ten new hospitals)
- Launch of six new hospitals

2013

- Launch of four new hospitals and one ambulatory clinic
- Acquisition of a 60-bed high-end, multi-specialty hospital in Tbilisi (Caraps)

2014

- Acquisition of a 60 bed hospital in Tbilisi with particular expertise in traumatology
- Launch of a new ambulatory clinic in Tbilisi
- Buy-out of a 49% minority shareholder of healthcare subsidiary My Family Clinic, making MFC a wholly-owned subsidiary
- Acquisition of Sunstone Medical LLC, a company that owns hospital in East Tbilisi and has an estimated capacity of 332 beds

2015

- Georgia Healthcare Group PLC successfully completed its initial public offering of ordinary shares at the Premium Segment of London Stock Exchange on 12 November 2015
- Acquired a 50% equity interest in GNCo, a 450-bed major and well-established referral hospital in Tbilisi
- Acquired a 95% equity interest in Deka LLC, an 80 bed hospital with capacity to develop 310 beds

Notes:
1 GHG internal reporting
2 Figures do not add up to the total number of beds (2,670) and the total number of clinics (45) shown on other slides, as some of the clinics were consolidated or divested

Industry and market overview

Rapidly growing healthcare services market

Georgia
№ 1
Reformer 2005-2012
(WB Doing Business Report)

Georgia's healthcare services market (including hospitals and ambulatory clinics) is 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.

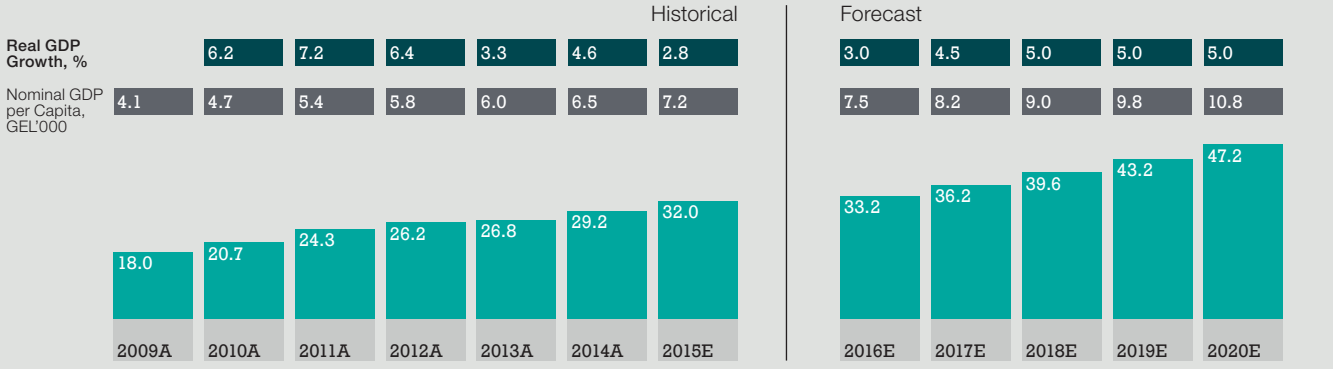
Healthcare services spending per capita is currently at a very low base of only US$217, with annual outpatient encounters of only 3.5 per capita and hospital bed utilisation of only 50%, all significantly lower than many comparable countries. Supportive government reforms and the engagement of private 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 player 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. Medical insurance companies depend on revenues from medical insurance policies purchased by employers for their employees and by individuals for their own use.

GDP growth expected to continue

Nominal GDP (GEL billion)



Source: IMF, GeoStat

While the Georgian government is the main source of hospital service financing in the country, 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 (of total nationwide hospital bed capacity, over 60% is new and only under 20% is in the public sector), including both ''bricks and mortar'' buildings and medical equipment, replacing rundown Soviet-era facilities.
- Increased access to healthcare through the Universal Healthcare Programme, which has provided basic healthcare coverage to the entire population since 2013. According to the IMF, this reform should improve healthcare outcomes and is estimated to add 1% of GDP per year to existing healthcare costs, making 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 and is forecast to reach GEL 3.1 billion by 2018. The hospitals segment accounts for 57% of all revenues generated in the market (as of 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 clinics segment is forecast to outpace the total market 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 are continuing 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

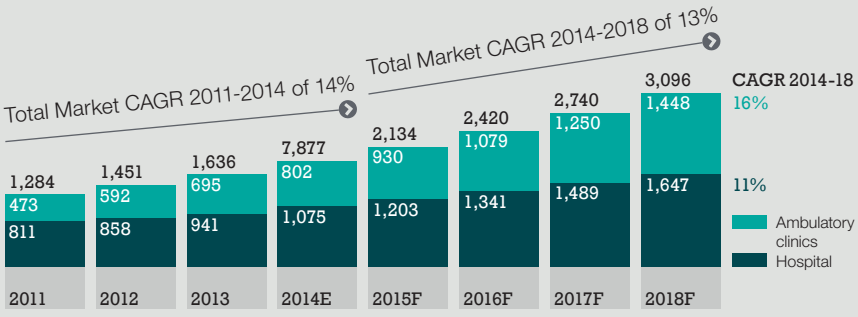
Georgia
N°23
Economic Freedom Index 2016
(Heritage Foundation)

Georgia
N°24
Ease of Doing Business
(WB-IFC Doing Business Report 2016)

High growth in healthcare services market expected to continue

Total market CAGR 2011-2018 (GEL million)

Double digit growth on the back of favorable dynamics expected



Source: Frost & Sullivan analysis

Fuelled by Liberal Reforms

- **Georgia has been the top improver on the World Bank's Ease of Doing Business report since 2005, rising from 113th in 2005 to 24th in 2016**
  - Georgia has implemented one of the most radical set of market and government reforms and programme of economic liberalisation in the former Soviet Union states
  - Massive privatisation led to the reduction of the public sector and its influence on the country's economy
  - Significant improvement in the business environment resulted in annual net FDI inflow at an average rate of 10% of GDP since 2005

Industry and market overview continued

new hospitals between 2007 and 2013 (with approximately 60% 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 20 to 30%.

- **Supportive government healthcare policies**. Since its introduction in March 2013, the UHC has provided the entire population with access to quality 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 expected to amount to 885 million in 2016, of which the addressable market for private healthcare providers (like GHG) is GEL 668.1 million, including GEL 570 million for the UHC and GEL 98.1 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 should increase demand for outpatient visits and should reduce the widespread practice of self-treatment.
- 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, 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 8 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% (Source: NCDC).
- **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 healthcare 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.

Capacity-wise Georgia stands alongside US, UK and Turkey

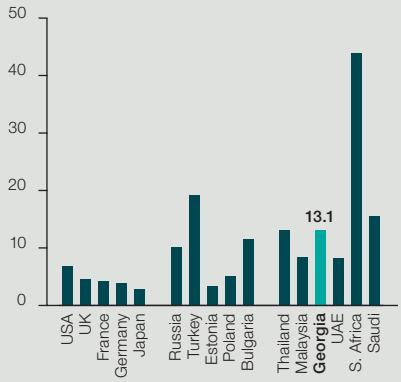
Hospital beds (per 1,000 people)

Source: World Health Organisation and World Bank, 2013 Data

With significant room for optimisation in terms of service quality, as indicated by:

Under five mortality rate…

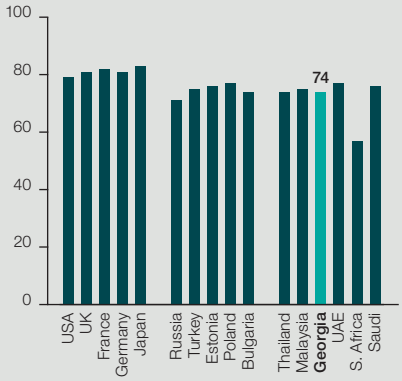
Mortality rate, under five (per 1,000 live births)



Source: World Health Organisation and World Bank, 2013 Data

… and life expectancy at birth

Total (years)



Source: World Health Organisation and World Bank, 2013 Data

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 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 programme 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

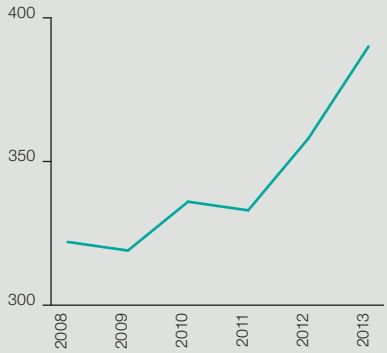
The actual prices that are charged to patients by healthcare providers are not regulated by the state. However, the reimbursement paid by the SSA to the healthcare providers under the UHC differs depending on the type of service provided and the location of the facility (in some cases reimbursement rates are higher in Tbilisi than in the regions).

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), 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 IVF centres, no bone marrow transplant facilities, no molecular laboratories and no suitable genetic laboratories.

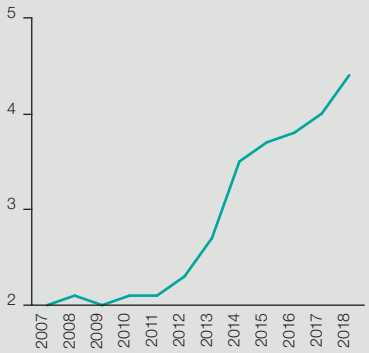
Demand analysis

Number of hospital admissions (thousands)



Source: NCDC

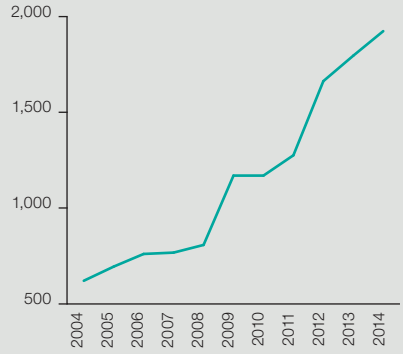
Outpatient encounter per capita



Source: NCDC, Frost & Sullivan analysis

Increasing overall disease incidence

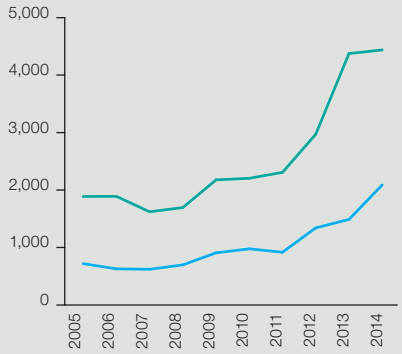
Number of first-time patients/diagnosis (thousands)



Source: Geostat

Including a growing incidence of lifestyle diseases

Diseases of the Circulatory System (per 100,000 population)



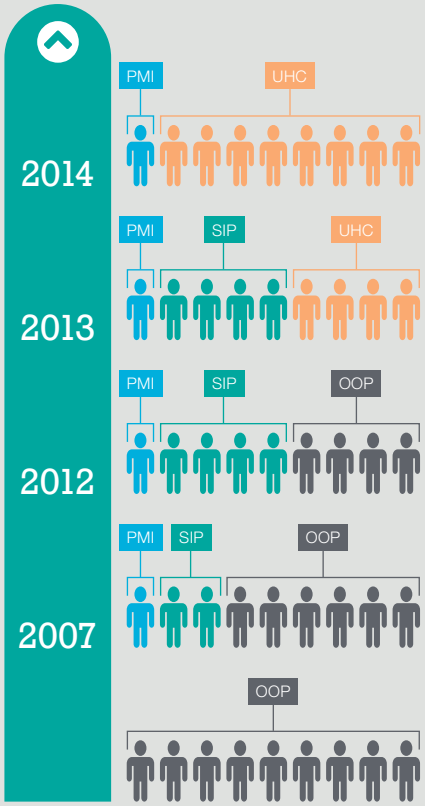
Source: NCDC

Industry and market overview continued

Long-term, high-growth prospects – Favourable government healthcare policy

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 4.5 million population:



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

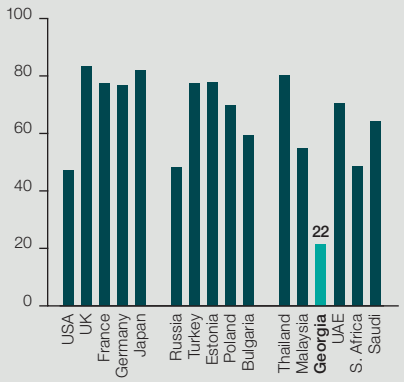
Source: Ministry of Health of Georgia

Key Principles of UHC Programme

Overview	› The UHC was introduced in February, 2013 and replaced most of the previous state-funded medical insurance plans › The main goal is to provide basic healthcare coverage to the entire population
Financing and top-up mechanism	› The UHC is fully financed by the government › The UHC does not 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

Government finances reached c.30% of total healthcare costs in 2015, from c.20% in 2013

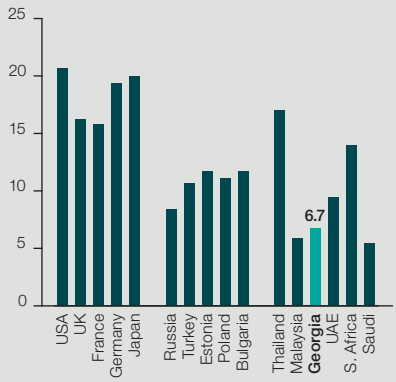
General government expenditure on health as a percentage of total expenditure in 2013



Source: World Health Organisation and World Bank, 2013 Data

Government spending on healthcare was only 6.7% of state budget in 2013, which grew up to 9.3% in 2015 year

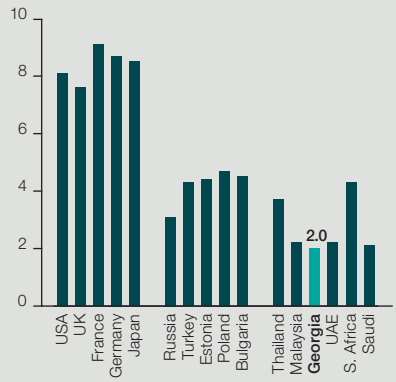
General government expenditure on health as a percentage of total government expenditure in 2013



Source: World Health Organisation and World Bank, 2013 Data

Government expenditure on healthcare as a % of GDP increased from c.2% in 2013, up to c.2.7% in 2015 year

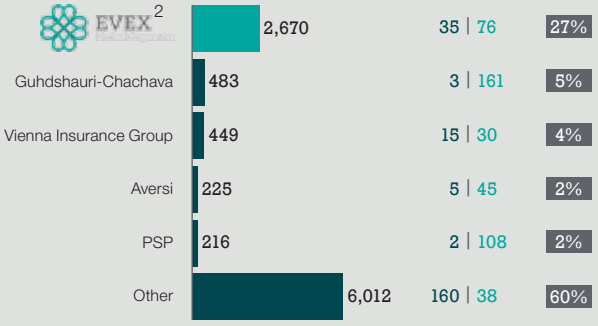
Government expenditure on health as % of GDP



Source: World Health Organisation and World Bank, 2013 Data

Healthcare services (Hospitals)[1]

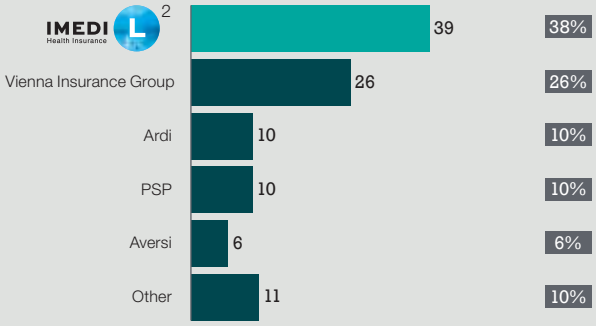
Number of beds (number of hospitals)



Notes:
1 Market share by number of beds. Source: NCDC, data as of December 2014, updated by the Company to include changes before 31 December 2015
2 Evex – healthcare service brand of GHG

Medical insurance[1]

Gross premium revenue (GEL million)



Notes
1 Market share by gross revenue; Insurance State Supervision Service Agency of Georgia as of 30 September 2015
2 Imedi L – medical insurance brand of GHG

Medical insurance market

From 2007 to 2013, the private insurance market expanded significantly with total enrolment increasing to 491,885. This stands in contrast to 2006 when only 40,000 Georgian citizens (or less than 1% of the total population) had a voluntary medical insurance package, most of which were provided as part of a corporate benefits programme. As of 30 September 2015, 536,014 voluntary medical insurance packages have been reported to the Insurance State Supervision Service of Georgia.

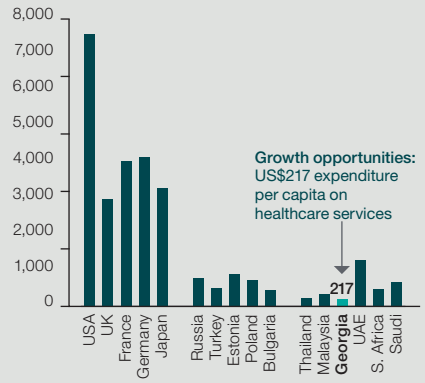
Growing awareness of the benefits of medical insurance among the population in Georgia may lead to greater demand for private medical insurance from employers and self-paying customers who seek better quality of services, quicker treatment, or more advanced procedures than are covered within the UHC framework.

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 five 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 company controls more than a 1% market share, with the Company's own market share at under 1%, as of 31 December 2015. Therefore, further consolidation is likely, as the emergence of a large participant in the market via mergers and acquisitions.

Low expenditure on healthcare services

Per capita expenditure on healthcare services, current (US$)



Source: World Health Organisation and World Bank, 2013 Data

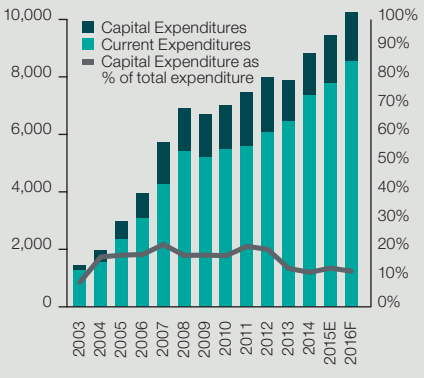
Expenditure on healthcare services (% of GDP)

Source: World Health Organisation and World Bank, 2013 Data

Note: Healthcare services expenditure for other countries is pro-forma, based on assumption that pharmaceuticals is 17% of total spending

With c.20% of government tax revenue spent on capex

Total government budget, breakdown by operating and capital expenditures



Source: Ministry of Finance of Georgia

Our business model

Unique "patient capture" business model

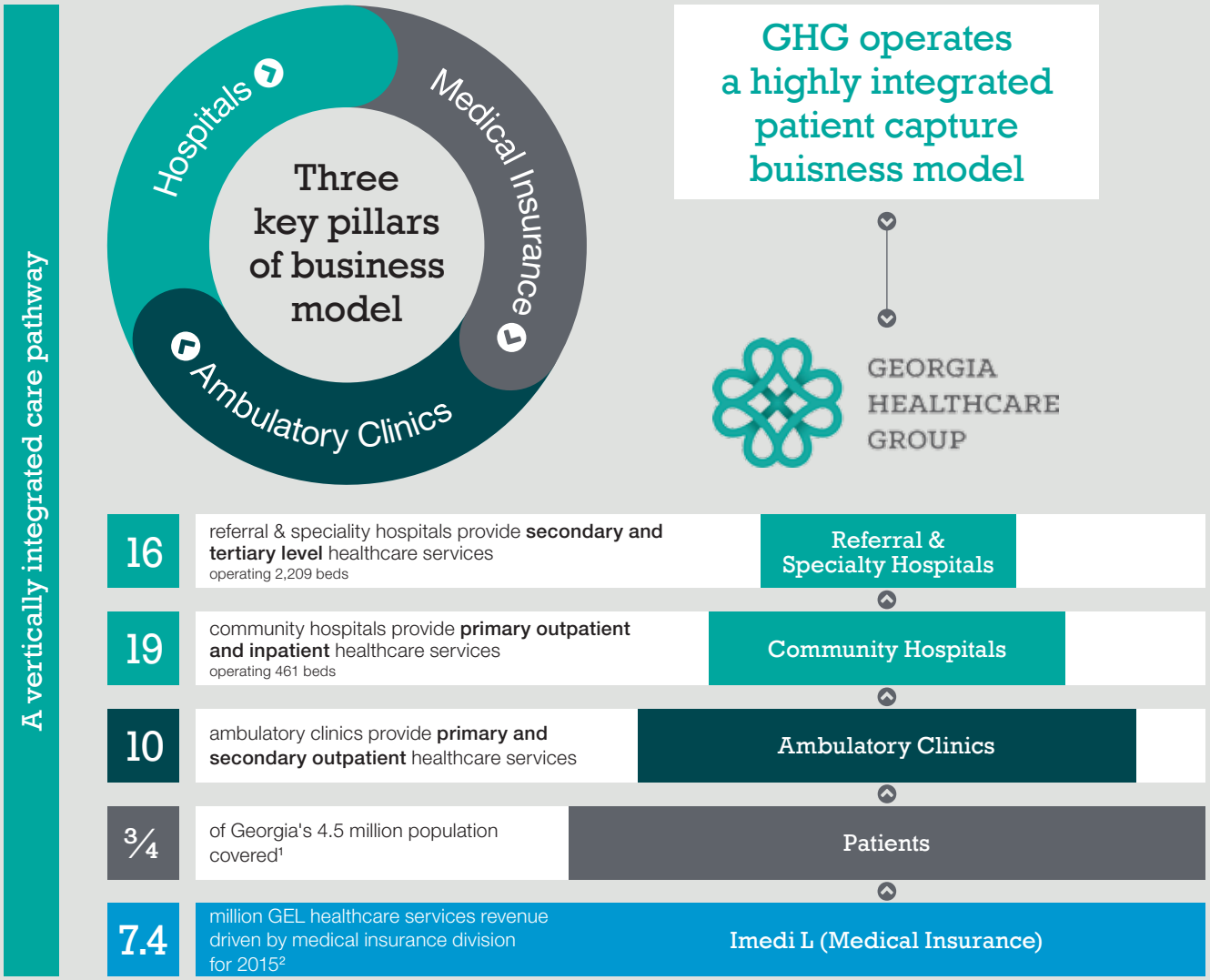
Our well established hospital network allows a seamless patient treatment pathway from local doctors to multi-profile or specialised hospitals whilst the insurance business plays a feeder role in originating and directing patients.

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 general or specialised 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.

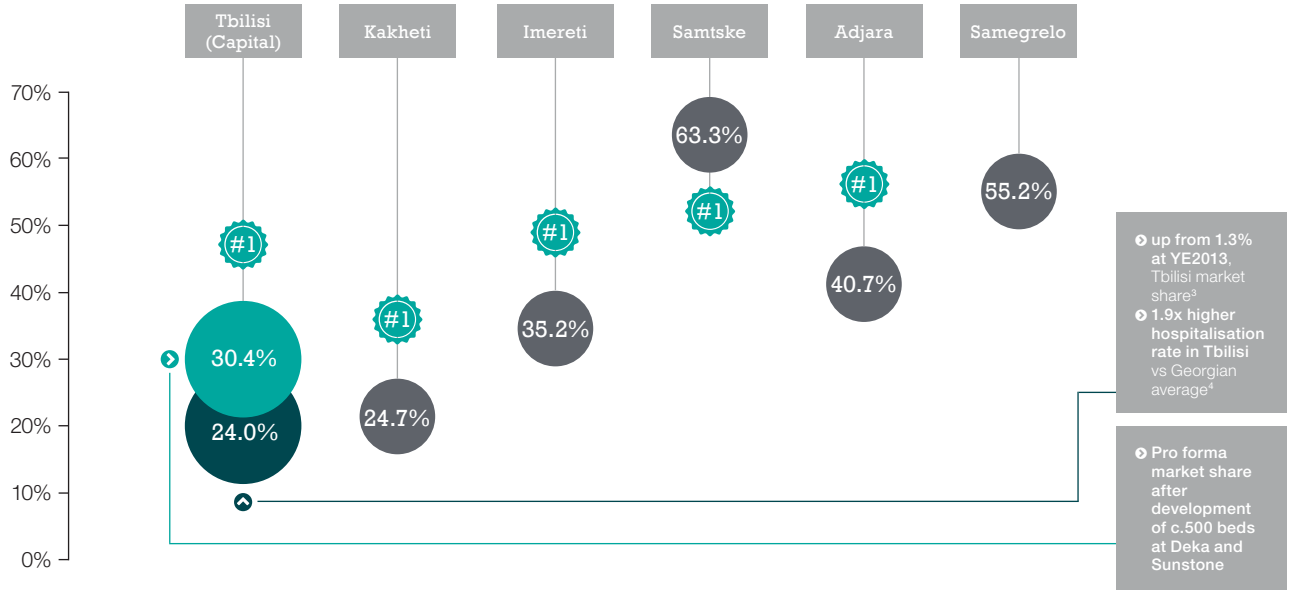
While we provide most basic ("primary") medical and surgical procedures at all of our facilities, the majority of more specialised or advanced ("secondary" and "tertiary") interventional and surgical procedures are concentrated at our regional referral hospitals.



Notes:
1 Geostat.ge. data as of 1 January 2014
2 GHG internal reporting

Geographically diversified network

Regional market shares[1]
Bubble size denotes relative size based on % of population[2]



Notes:
1 Market share by number of beds. Source: NCDC, data as of 2014. Market shares by beds are as of 31 December 2015
2 Geostat.ge, data as of 1 January 2014
3 GHG Internal Reporting
4 NCDC healthcare statistical yearbook 2013

Healthcare services

Referral hospitals

We operate 16 referral hospitals, of which 14 are general hospitals and two are specialty hospitals, with a total of 2,209 beds as at 31 December 2015. 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 59.3.% bed utilisation and generated 88% of our total healthcare services revenue in 2015. The EBITDA margin for our referral hospitals for 2015 was 28.0%.

Community hospitals

We operate 19 community hospitals with a total of 461 beds as at 31 December 2015. 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 19.3% bed utilisation and generated 9% of our total healthcare services revenue in 2015. The EBITDA margin for our community hospitals for 2015 was 27.7%.

Ambulatory clinics

We operate four ambulatory clusters with a total of ten ambulatory clinics that provide outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities. Ambulatory clinics generate the highest margin and management believes that this segment of our business will become the largest source of future growth. Our ambulatory clinics generated 3% of our total healthcare services revenue in 2015. The EBITDA margin for our ambulatory clinics for 2015 was 30.5%.

Medical insurance

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 234,000 customers as at 31 December 2015. 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. Medical insurance generated GEL 55.3 million of revenue in 2015, comprising 22.7% of our total revenue and 4.7% of our total EBITDA. All of this revenue was generated by private medical insurance customers. We operate 11 branches and service centres of our medical insurance business located in a number of cities and towns across Georgia.

Acquisition of one of the largest retail and wholesale pharmacy chains in Georgia

On 12 March 2016, GHG signed a legally binding MOU to acquire 100% of the issued share capital of GPC, one of the top three pharmaceutical retailers and wholesalers in Georgia. The acquisition of GPC supports GHG's expansion strategy and its aim to be the leading integrated player in the Georgian healthcare ecosystem of GEL 3.4 billion aggregate value. It positions GHG as the major purchaser of pharmaceutical products in Georgia, and provides a platform which offers significant synergy potential. For further information, please see GHG's announcement of the GPC transaction (http://ghg.com.ge/news), which was published on 16 March 2016.

Our strategy

Our long-term growth strategy is focused on achieving a ⅓ market share by both number of beds and revenue, and increasing profitability.

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 five providers control approximately 40% of the market by number of beds, as of 31 December 2015) 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.

Long-term growth drivers

Growth in hospital revenue – GHG owns it

Hospitals

2015 market size: GEL 1.2 billion

18% In 2015 → Market share by revenue → 33% Long-term target

Growth opportunities
- Low utilisation (50-60%)
- Low equipment penetration
- Fragmented supply

First mover advantage in highly-fragmented, under-penetrated ambulatory segment

Ambulatory clinics

2015 market size: GEL 0.9 billion

1% In 2015 → Market share by revenue → 17% Long-term target

Growth opportunities
- Low outpatient encounters
- Fragmented supply
- New prescription policy

Margin enhancement and growth in line with nominal GDP growth

Pharmaceuticals

2015 market size: GEL 1.3 billion

15% In 2015 → Market share by revenue → >15% Long-term target

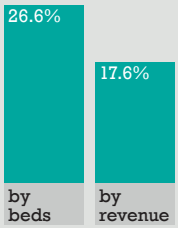
Growth opportunities
- Growing wholesale revenue
- Enhancing retail margin
- Expending pharmacy footprint

Room for growth

GHG's nation-wide bed capacity in place to accommodate future revenue market share growth (Sunstone to be renovated in 2016-17)

Revenue market share gap FY2015

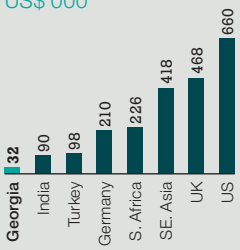
Market shares



10x price gap with developed EM benchmarks

Low revenue per bed

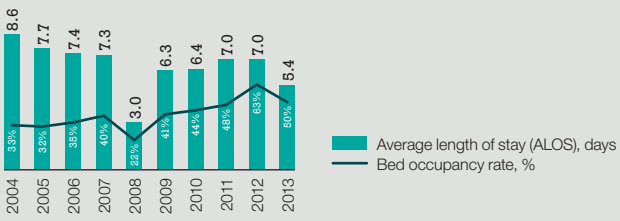
Average revenue per bed US$'000



Outpatient encounters increased to 3.5 in 2014 up from 2.7 in 2013

Low bed utilisation

Utilisation and ALOS



New prescription practice expected to drive outpatient traffic

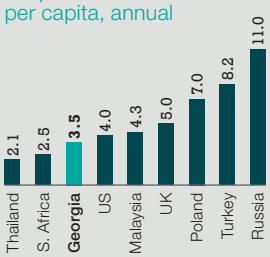
Price gap

Prices

	Heart surgery	Liver transplant	Knee replacement
USA	100,000	300,000	48,000
UK	40,000	200,000	8,000
Turkey	45,625	86,700	17,500
Thailand	15,000	75,000	8,000
Singapore	15,000	140,000	25,000
India	**5,000**	**45,000**	**6,000**
Georgia	**6,500**	**45,000**	**1,100**

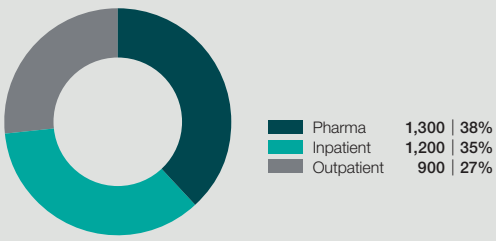
Low outpatient encounters

Outpatient encounter per capita, annual



High pharma spending redistribution

Total Heathcare Spending breakdown



Sources: GHG internal reporting; Frost & Sullivan analysis, 2015; NHA, Ministry of Labor, Health and Social Affairs of Georgia; NCDC 2014; OECD, World Health Organisation and World Bank – 2013 or most recent data

Long-term, high-growth story

We believe that we can more than double our 2015 revenue by 2018 while achieving and 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

By utilising acquired hospital capacity and aggressively launching ambulatory clinics

Enhance revenues by capitalising on scale

Milestone

Georgia medium term = Turkey 2014

By healthcare spent per capita

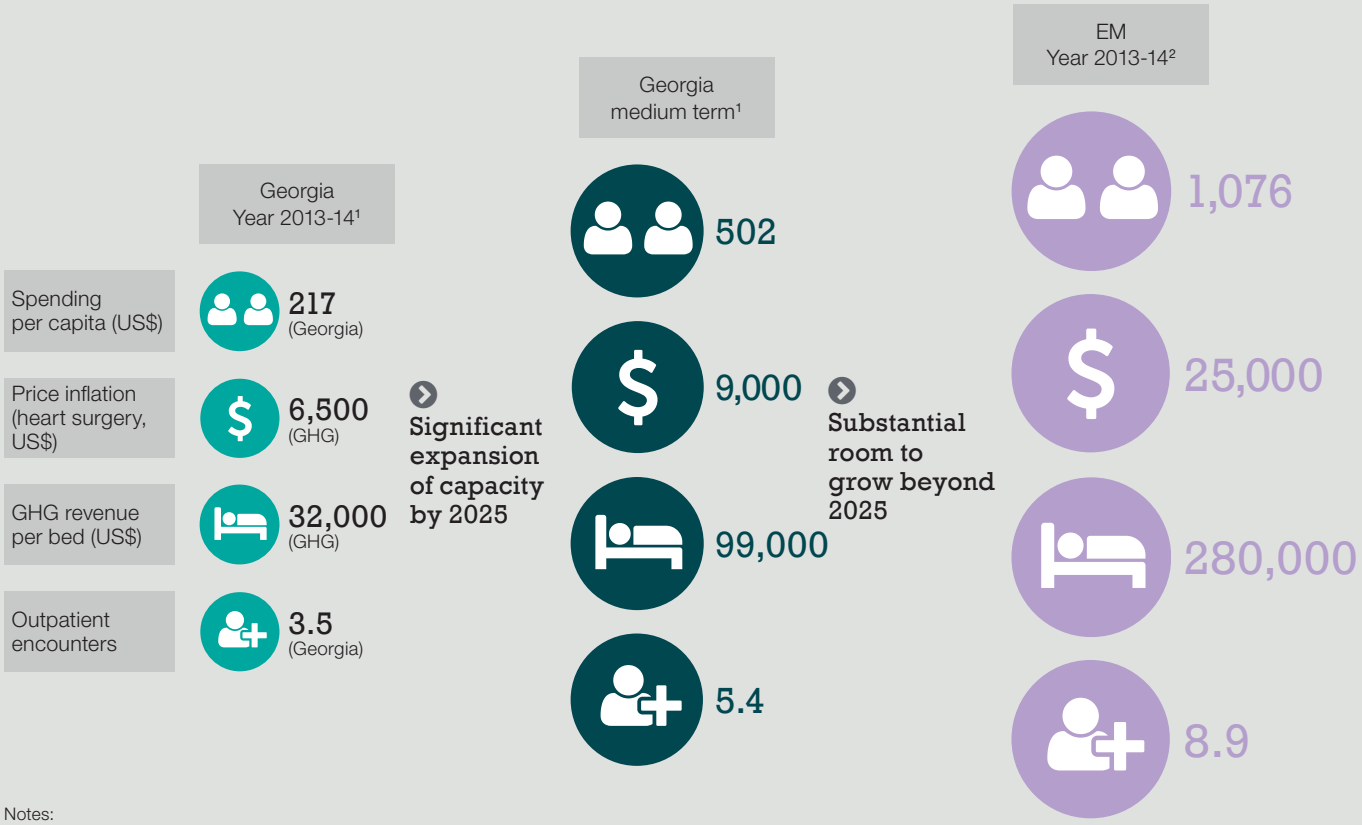
Through an enhanced mix of service, improved quality of care

Significant levers for further growth

Milestone

Catch up with developed EM benchmarks in the long term

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



Notes:

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

Our strategy continued

GHG's strategy 2015-2018 is simple: at least doubling 2015 revenue by 2018

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

- capture one third of the Georgian hospital market, where we had a 26.6% market share by number of beds, as of 31 December 2015, through a combination of organic growth and the integration of recently acquired hospitals, mainly focusing on Tbilisi. We plan to increase our market share in the fast-growing, highly fragmented and underpenetrated outpatient market (where no company controls more than a 1% market share, with the Company's own market share at under 1%, as of 31 December 2015), through the launch of 20-30 ambulatory clinics within the next two to three years;
- invest in medical equipment, utilising existing service gaps, particularly in oncology, high tech diagnostics, laboratory, and specialist services;
- continue to lead the market in the quality of our medical care;
- drive margin improvements through operational efficiency and utilisation levels in our facilities; and
- maintain our existing market share in medical insurance and triple our 2015 self-pay insurance revenue.

We believe that our commitment to an integrated business model will allow us to continue to maximise operating efficiencies and synergies between our healthcare and medical insurance businesses.

Hospitals

To achieve ⅓ market share

- no need for new hospital acquisitions to achieve targeted growth – we plan to focus on renovations of existing facilities (Deka, Sunstone, Samtskhe clinics – c.500 beds in total)
- HTMC revenue in 2014 was GEL 38.4 million, in FY15 was GEL 40.8 million
- although ⅓ market share by hospital beds is almost there[1], by revenue it is significantly less

Outpatient services

Rapid launch of ambulatory clinics:
first mover advantage in a fragmented market

- c.30 ambulatory clinics expected to be launched within 2-3 years, in highly fragmented and under-penetrated outpatient segment
- catching up on outpatient revenues. Outpatient represent c.40% of national spending on healthcare services and only 2% share of GHG revenues with target of achieving 15% of 2018 revenues[3,5]; additional increase expected from increase in utilisation as Georgia has the lowest in the region average number of outpatient encounters per capita (Georgia: 3.5[2], CIS: 8.9, EU: 7.7[3])
- new prescription policy to have a favourable impact on number of outpatient visits
- enhancing presence along the patient pathway

Adding high-margin services

To invest in medical equipment, to close existing service gaps

- expand offering in Oncology, Diagnostics, Paediatric, and Transplantology
- capitalise on existing service gaps and overall lower quality of medical care in the country and on the other hand improved access to healthcare services through UHC financing. There is a need for improvement, as evidenced by low incidence levels in these specialities (e.g. malignant neoplasms incidence rate in Georgia: 110.1, EU: 543.7), as well as c.US$100 million national spending on medical services import.)[4]

Notes:
1 Market share by number of beds. Source: National Centre for Decease Control, data as of December 2014, updated by the Company to include changes before 31 December 2015
2 NCDC healthcare statistical yearbook 2014
3 Frost & Sullivan 2015 (Data 2011-2012)
4 NCDC healthcare statistical yearbook 2013
5 GHG internal reporting

Capacity in place for accelerated hospital revenue growth

c.30% potential capacity: 26.6% market share as of 31 December 2015, further development capacity of up to c.500 beds that GHG aims to develop in 2016-17, which will bring our overall market share to c.30%

Expand through the development of hospitals, focusing predominantly on Tbilisi.

We are the single largest market participant, accounting for 26.6% of total hospital bed capacity in the country, as of 31 December 2015, which is more than five times higher than our nearest competitor, Gudushauri-Chachava. Our market share is expected to grow to 30.0% as a result of the renovation of recently acquired hospital facilities, scheduled for completion in 2016 and 2017 (approximately 500 additional beds). We have a market share of 18% by hospital revenue, as at 31 December 2015. We also have the widest geographic coverage network relative to our competitors, with facilities currently located in six regions covering three quarters of the 4.5 million population of Georgia.

We aim to add approximately 1,000 hospital beds between 2015 and 2018 (including the 530 beds obtained as part of the acquisitions of HMTC Hospital and Deka Hospital), predominantly in Tbilisi, through green field or brown field development. We have identified a focused portfolio of new build, brown field and green field opportunities in currently under served districts of Tbilisi or where there is specific potential due to our competitors' weaknesses.

In particular, we plan to establish a general hospital in East Tbilisi by renovating and developing the existing Sunstone hospital. We purchased this property, a long established and well known hospital in Tbilisi that has not been fully operational for several years, in 2014. This provides us with access to patients in the East Tbilisi district, as well as referrals from East Georgia, and has an estimated total development capacity of 332 beds. We will also continue to integrate HTMC Hospital, which we acquired in August 2015. HTMC Hospital is a 450 bed major and well-established referral hospital in Tbilisi that is also the single largest hospital in Georgia. We also plan to renovate an additional hospital in Tbilisi, which we acquired from Deka in June 2015. This hospital has a potential 310 bed capacity and is located in a prime location in Tbilisi.

Additionally, although the Group has completed the main acquisition phase of its development and does not depend on further acquisitions, we will continue to assess acquisition targets opportunistically to strengthen our position in the market for multi-profile referral hospitals in other districts of Tbilisi. Having multi-profile referral hospitals in other districts will complement our strategy of developing clusters of ambulatory clinics throughout the city.

Our strategy continued

Rapid launch of ambulatory clinics

Goal

- Capitalise on the high growth potential of ambulatory services driven by recent healthcare reform (diagnostics, prescriptions)
- Enhance ambulatory pillar as feeder for hospitals
- Enhance higher margin operations

Increase market share through the launch of new ambulatory clinics across Tbilisi.

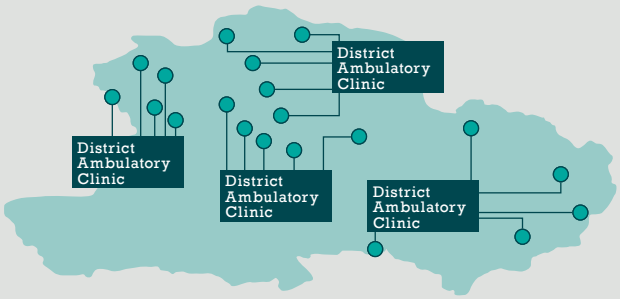
We are establishing a network of ambulatory clinics in Tbilisi to access a much patient base and help increase physician referrals to our hospitals. The development of this ambulatory network will enable us to capitalise on the high-growth potential of higher margin ambulatory services and develop the ambulatory clinic network as a feeder for our hospital network. Furthermore, we receive higher margins for the provision of services in Tbilisi compared to the regions and reimbursement rates under the UHC are higher in Tbilisi than in the regions, which will further enhance the profitability of our healthcare services business. We intend to take advantage of the gap between the average number of outpatient visits per capita, which in Georgia is the lowest in the region at 3.5, compared to 8.9 in the CIS and 7.7 in the EU as at 31 December 2013.

We are in the process of developing networks of ambulatory clinics that are organised in cluster models, whereby each cluster includes a district ambulatory clinic, located centrally in a particular district of the city, and three to five smaller express ambulatory clinics, located in other areas of the same district. Currently we operate ten ambulatory clinics organized in four ambulatory clusters, of which three ambulatory clusters were opened towards the end of 2015. In total five ambulatory clinics were added during 2015. At least six more ambulatory clusters are expected to be opened in 2016.

Our new district ambulatory clinics provide the widest range of services available in Tbilisi. Most specialist services are provided on a full time basis and also include a small operating theatre and beds for outpatient services, chemotherapy and diagnostics services, including computer tomography scanning. A typical district ambulatory clinic occupies an area of 1,800-2,500 m² and is open six days a week during normal working hours (from 10:00 am to 8:00 pm).

Our new express ambulatory clinics primarily provide general primary care physician outpatient services, with specialist services provided on a part time basis. Their diagnostics capabilities also incorporate clinical laboratories (which will collect samples locally and use referral laboratories to perform tests), ultrasound and ECG. Express ambulatory clinics are clustered within 25-30 minutes' walking distance from the district ambulatory clinic in each neighbourhood to provide basic ambulatory services and refer patients to the district ambulatory clinic, where a wider range and more sophisticated services are offered. A typical express ambulatory clinic occupies an area of 120-200 m² and is open seven days a week, with extended working hours (from 9:00 am to 9:00 pm).

Ambulatory clusters in Tbilisi



Our ambulatory clinics, as with all our healthcare facilities, provide services to patients financed by a range of payment sources, including state coverage, private medical insurance or out of pocket payments. Our ambulatory network takes advantage of our unique capabilities as a healthcare service provider including, among other things, our comprehensive referral system, as well as access to a wide talent pool of specialised physicians, our central referral laboratory and our training centre.

The first phase of the launch was focused on Tbilisi and comprised three district clinics with between two and four express clinics for each district clinic. This project started at the end of 2014 and is expected to be completed within the next three years at an estimated cost of GEL 4.5 million per cluster. Following the completion of this phase, we plan to expand our presence in the fast-growing outpatient segment in all of the regions in which we operate, focusing on both enhancing our outpatient revenues and on increasing referrals to our hospitals. Our long-term target is to obtain a 17% market share by revenue in this segment.

We invest in medical equipment and service development to close existing service gaps, ultimately leading the way to a better healthcare in Georgia.

Our focus for the next 2-3 years

We invest in medical equipment, eliminating existing service gaps, particularly in oncology, high tech diagnostics, laboratory, and specialist services. Providing patients with guidance and quality care is our ultimate mission. And eventually, it is the first class leaders of our medical team that are driving the improvement of service quality and access to healthcare across the organisation. We capitalise on existing service gaps and overall lower quality of medical care in the country and on the other hand improved access to healthcare services through UHC financing. Need for improvement as evidenced by low incidence levels in these specialities (e.g. malignant neoplasms incidence rate in Georgia: 110.1, EU: 543.7), as well as c.US$100 million national spending on medical services import. On pages 27-32, the leaders of our medical team provide insights about the healthcare service gaps in Georgia and our focus for the next 2-3 years in terms of investment and development.

Name: **Gregory (Gia) Khurtsidze**
Position: **Chief Clinical Officer**

Despite the high number of doctors available in Georgia, the average age of our doctors is 50, they mostly come with Soviet medical education and we have a shortage of doctors in a number of areas. Therefore, the main priority for my team and me is sourcing and expertise advancement of our physicians. Evidence based medicine and western standards of care is our baseline.

We have been working on design and the development of residency programmes since 2014, which we launched in 2015. I am glad to see high demand for our residency programmes (we received 120 applications for the 43 residency position within the first month of the announcement), which shows both, the reputation of our organisation and strong demand on the market for this profession. We also have re-training of currently practicing physicians. Our residents benefit from our collaboration with Georgian doctors that work abroad (USA, Europe, Middle East), who deliver classes via teleconferences and provide hands-on experience sessions during visits in Georgia.

Our Goal for the next several years is to develop a sufficient number of doctors in the shortage areas and retrain the majority of our existing physicians.

Mr. Khurtsidze joined GHG in February 2016. Prior to that, he worked at New Hospital in Tbilisi, Georgia and St. John Hospital North West Kaiser Permanente Division in Longview, WA and Huron Hospital, Cleveland, OH. M.D in General Medicine, trained in internal medicine and as a hospitalist, licensed in Washington and Kentucky, US.

Name: **Nino Butskhrikidze**
Position: **Head of Quality Management**

Despite effective healthcare reforms in the areas of financing and infrastructure, Georgia has not done much yet in the area of Quality Management since the Soviet era.

On the other hand, our scale provides us with sufficient resources to develop our internal quality management system, which helps us standardise and ensure patient safety and a quality of medical care that we have developed and benchmarked against the international, EU and Joint Commission International (JCI) standards. We have also adopted various infection control procedures at our hospitals in partnership with external consultants including JCI Consultancy, CDC Atlanta, CDC Georgia, Emory University and the WHO European Regional Office. Our reputation for high quality care has also been strengthened by our global collaborations with leading institutions including the Mayo Clinic, John Snow Inc., URC, the Rostropovich Vishnevskaya Foundation and USAID. Our attention has been focused on the highest risk areas. The goal for the next several years is to develop and implement quality management measures at a larger scale within our healthcare facilities including components of quality activities, such as full risk management, antibiotic stewardship, and surgery care improvement project and trauma registry.

Ms. Butskhrikidze joined the GHG in November 2014. Prior to that, she worked as a quality management officer at the Tbilisi Central University Hospital, was the coordinator of the emergency medicine project in Georgia. M.D in General Medicine.

Name: **Tamar Dowse**
Position: **Head of Nursing Service Department**

The World Health Organisation recommends a nurse to doctor ratio of 4:1 for Georgia, compared to our current ration of 0.9 nurses per doctor.

To address this issue, we launched a post-graduate nurse training programme two years ago. This is an intensive nine month curriculum, and we have already retrained 1,960 out of our 2,738 nurses. To source new nurses, we launched Nurse College together with the leading medical institute in Georgia. More than 200 nurses are expected to graduate from the college every year. We will be funding the education of the top performers in the class to incentivise the applicants, as currently the demand to join the nursing profession is not favourable in Georgia. To popularise the nursing profession, we also promote it on social media and through TV.

The goal for the next several years is to accomplish 2:1 nurse to doctor ratio by continuing our current training and teaching initiatives.

Ms. Dowse joined GHG in 2013. Prior to that, she worked at Jo Ann Medical Centre (Cardiology Hospital) in Georgia, Princess Margaret hospital in the UK, Cardinal Health of Swindon in the UK and was a Project Officer at the Salvation Army (UK).

Our strategy continued

We invest in medical equipment and service development to close existing service gaps, ultimately leading the way to a better healthcare in Georgia.

Our focus for the next 2-3 years (continued)

Name: **Marika Toidze, MD**
Position: **Head of Internal Medicine and the Ambulatory Service Department**

Outpatient encounters in Georgia are low at 3.5 a year, compared to the CIS average of 8.9 and European Region countries of 7.5, according to WHO. We have a strong self-treatment culture in Georgia and on the other hand, the availability of quality ambulatory clinics is limited and the market is highly fragmented.

To provide strong primary care to our patients we needed to create physical access, offer quality care and increase patient awareness. At the end of 2014, we tested the concept and in 2015, accelerated our ambulatory launch strategy, which implies the opening of around 30 ambulatory clinics, in Tbilisi and major regional cities, during 2015 and 2016. Patients like our clinics and insurance companies, that place GPs at our clinics note higher demand for GPs placed at our clinics compared to the competition. The Universal Healthcare Programme helps increase patients' access to the primary healthcare.

Our goal for the next several years is to complete the roll-out of ambulatory clinics and increase awareness for the access and the quality of care, to boost utilisation.

Ms. Toidze joined GHG in 2012. Prior to this, she was a Chief Medical Officer at Sachkhere Medical Centre for almost a decade. Ms. Toidze participated for several years in clinical and research activities in Milan University Hospital and Weill Medical College of Cornell University in New York Presbyterian Hospital. She is a ECFMG certified Medical Doctor, MD in Internal Medicine and Rheumatology.

Name: **Nino Abesadze, MD**
Position: **Head of the Laboratory Service Department**

Both the utilisation and quality of laboratory services are very low in Georgia, a number of lab tests are still sent to the laboratories abroad. The role of quality laboratory services is critical in the development of primary healthcare in Georgia.

Building up customer trust has been our primary focus for the last three years. Since 2012, we started improving the service quality by investing in equipment, personnel training and process standardisation. Currently, three of our referral hospitals are certified with ISO 900:12008 and the rest of our healthcare facilities also adhere to the same standards of service. We have also focused on the efficiency of our operations and set up referral laboratories at our referral hospitals that perform lab tests on behalf of our other clinics. Currently we run 10 referral and 30 non-referral laboratories.

Our goal for the next several years is to launch a mega-laboratory in Tbilisi, Georgia, which will consolidate our investment and replace our referral laboratories in order to further improve the quality of tests as well as increase the range of tests.

Ms. Abesadze joined GHG in 2011 through the acquisition of Kutaisi Referral Hospital, where she was the head of the clinical laboratory. Prior to this, she was a Doctor and a Bursar of Professor Landbeck at the University Medical Centre Hamburg-Eppendorf (UKE), Oncology and Haematology department for children (Germany). She holds a state certificate in Paediatrics, Transfusiology, Haematology, and Laboratory Medicine, is a certified internal auditor at Lloyd's Register of Quality Management Systems and a PhD candidate.

Name: **Alexi Baidoshvili, MD, PhD**
Position: **Head of the Pathology Service Department**

Pathology services do not exist in Georgia today. Whilst there are laboratories, the methodology and the skills, as well as the equipment that is used to carry out pathology tests is vastly outdated and 30 years behind those used in Europe – therefore test results are not reliable. Patients mostly mail the test materials to foreign clinics. The lack of proper pathology service spills over to other services, particularly the oncology services, creating a substantial service gap and deficiency.

It takes years to develop some services and pathology is one of them. At GHG, we started working on this project several years ago. Success in pathology largely depends on skilled personnel and I am glad that we already have Georgian specialists, trained at the Laboratory of Pathology East Netherlands (LabPON) with the ultimate goal to return to Georgia to kick-start the pathology service. Our plan for the next several years is to launch a proper pathology service – the first such laboratory in Georgia, which will be part of a mega-laboratory.

Mr. Baidoshvili joined GHG in 2013. He is an active board member of several organisations and organiser of international annual conferences. President of the Georgian International Medical and Public Health Association (GIMPA). He is an honorary President of the International Academy of Pathology Georgian Division (IAP GD). Graduated from the VU University Amsterdam, specialising in Pathology at the VU Medical Centre in Amsterdam.

Name: **Koba Kiknavelidze, MD, PhD**
Position: **Head of the Kutaisi Oncology Centre**

Cancer diagnostics and treatment are in the early stages of development in Georgia, which is evidenced by very low reported incidence levels. For example, malignant neoplasms incidence rate in Georgia is 140.3, compared to 543.7 in EU, and the detection of over 30% of malignant neoplasms occur at stage IV, in many cases too late. This is due to the lack of investment in the service provision, lack of physicians and generally a low check-up culture in Georgia.

To address this issue, in 2015 we launched West-Georgia Oncology Centre, which is equipped with the most up-to-date technology including the only linear accelerator in west Georgia and aims to become the major oncology centre for the west Georgian population. We invited two specialists from the US to support local physicians initially. Within the first three months of operations, we have achieved 80% utilisation. We support the detection stage with free-check-up programmes. Until then, the oncology service was only available in Tbilisi.

Our goal for the next several years is to provide good quality oncology diagnostics and treatment to west Georgia's population (about 1.8 million people) so that they don't have to travel to the capital for the service. This enhances the variety of services provided, as well as increasing the capacity of our Oncology Centre, on the back of increased demand.

Mr. Kiknavelidze joined GHG in 2011, through the acquisition of Kutaisi Referral Hospital, where he worked as Chief Clinical Officer. Prior to this, he worked at the National Centre of Urology in Georgia and the University Hospital of Mannheim in Germany. Scholar of the European Association of Urology. MD in Urology and Oncology.

Name: **Tamar Antelava, MD, PhD**
Position: **Head of the OB-GYN Service unit**

Georgia has the highest number of caesarean sections per 1,000 live births among the former Soviet Union republics – 39% of the total number of all deliveries in 2014. The maternal mortality ratio per live births is three-times higher in Georgia than in the European Region. Poor care during pregnancy spills over to the neonatal and paediatric fields.

As a member of the committee that works on the national policy for maternal and child care policy in Georgia and as the head of the ob-gyn division at GHG, the largest ob-gyn unit in the country, I have an opportunity to both influence the policy as well as implement it in our healthcare facilities. GHG's cluster business model is best suited to leverage the national regionalisation of perinatal services (introduction of levels of care). Our focus is on establishing the levels of care starting from villages though the referral centres, as well as the training of medical personnel to use relevant protocols. Progress is evident, as the share of women beginning antenatal care has increased and is now almost 80%, up from 50% in 2003, but there is enormous room for improvement with service quality in maternal care. IVF service is scarcely developed and Georgians mostly travel abroad for this service – we will be launching the service in the second quarter of 2016.

Ms. Antelava joined GHG in 2015. Previously, she worked at Chachavas Clinic – a leading ob-gyn clinic in Georgia. She is a JSI expert and trainer, a member of the Maternal and Children's coordination board at The Ministry of Labour, Health and Social Affairs since 2013 and a member of the ob-gyn association in Georgia.

Our strategy continued

We invest in medical equipment and service development to close existing service gaps, ultimately leading the way to a better healthcare in Georgia.

Our focus for the next 2-3 years (continued)

Name: **David Tsibadze, MD, PhD**
Position: **Head of the Maternal and Children's Health Service Department**

Issues in maternal care spill over to children's health, particularly at neonatal age. In Georgia, neonatal mortality was 60-80% of under five mortality during previous years, well above the 43% global average.

When I joined GHG in 2012, proper neonatal services were only available in one hospital in Tbilisi (Iashvili Hospital). All regional hospitals referred patients to Iashvili, which was working over its capacity, and many patients did not simply have access to a proper service. We could not improve services in the regions, because these simply did not exist. We started by launching neonatal units (conservative, surgical and intensive care) at our regional referral hospitals, one by one. We invested in equipment, and most importantly in personnel training, both physicians and nurses, where the help from our colleagues at the Mayo clinic was crucial, and who also helped us develop in-house trainers. We introduced referral protocols. Today, we have two neonatal units in our regions and the referral of patients to Iashvili decreased to 40%.

Our goal for the next several years is to launch neonatal units at the two remaining referral hospitals and continue training and developing of our personnel to further decrease the referral rate from regions to Tbilisi.

Mr. Tsibadze joined GHG in 2013. Prior to this, he was the Head of the Department of Emergency and Critical Care at M. Iashvili Children's Central Hospital and worked at Jeanne de Flandre Hospital of Lille, Timone Marseille University Hospital, Purpan-Toulouse Paediatric Hospital Network in France. MD in Neonatology and Intensive Care.

Name: **Maria Lipka, MD**
Position: **Head of the Paediatric Service Unit**

The biggest share of medical services import in Georgia comes from paediatric services, due to a lack of availability of services and their quality. On the other hand, the culture of regular visits to the doctor at an early paediatric age exists, as a favourable heritage from Soviet-times.

To address the gap in service supply, we are focusing on two areas – increasing access to basic paediatric services in our regional hospitals by setting up paediatric units (conservative, surgical and critical care) and introducing referral protocols to decrease referrals to hospitals in Tbilisi. We are also developing services that do not exist or where there is a shortage in their supply, like paediatric cardiosurgery, oncology, neurology, etc.

Developing physicians is the most important step to succeed in both areas. Success of our residency programme is important to source paediatricians for our paediatric units and our collaborations with physicians and centres abroad helps us kick-start new services.

We have launched six paediatric units in the last two years and plan to launch four more.

Ms. Lipka joined GNG in 2014. Prior to this, she worked at the Paediatric Transplantology Centre in Warsaw, Poland, and at Mid-Western Regional Hospital of University of Limerick, Ireland. MD in paediatrics and paediatric nephrology.

Name: **Paata Kalandadze, MD, PhD**
Position: **Head of the Children's Cardiac Service Unit**

For almost 15 years, there was only one centre in Georgia that provided cardiology and cardiosurgery services for children. That largely limited access to the service. The detection level was low and the service provision limited.

We at GHG started work on developing this service in 2014 and eventually launched a Paediatric Cardiosurgery Unit at Iashvili Hospital. In the first several months of utilisation, we have completed 21 surgical operations. To compare, a total of 513 open heart operations were performed on children under 15-years in 2014 in Georgia (latest available figure on national statistic). We provide free-of-charge diagnostics in the regions, to improve the detection rates.

The goal for the next several years is to strengthen the unit and its capacity.

Mr, Kalandadze joined GHG in 2015. Prior to this, he worked at Policlinico di Monza and Papa Giovani XXIII hospital in Italy, Alder Hey Children's Hospital in Liverpool and the Royal Children's Hospital in Melbourne. Dr. Kalandadze is a cardiac surgeon of the association "the heart of children", performing international missions all over the world. MD in cardiovascular surgery.

Name: **Zaza Katsitadze, MD, PhD**
Position: **Head of the Cardiac Surgery Service Department**

While the cardiac surgical services is one of the well-developed services in Georgia, two major gaps still exist: access to services in the regions of Georgia and therapeutic cardiology. These gaps are evidenced by a hospitalisation rate per 100,000 population that was 1,647 in 2014, which is two-fold less than in CIS and European Union countries. Additionally, cardiovascular diseases represent 16.5% of deaths, which includes 51% of deaths due to strokes and 45% of deaths due to coronary heart disease.

When I joined GHG in 2013, my main goal was to build a holistic cardiology service from diagnostics, through management and to surgery, as well as increase regional access. Since then, we have launched three catheterisation laboratories and four full scale cardio surgery units. We trained and recruited three interventional cardiologists and three cardiac surgeons.

Our goal is to launch another fully-fledged cardiology units within our hospitals within the next three years, and increase utilisation and capabilities of the existing units.

Mr. Katsitadze joined GHG in 2013. Prior to that, he worked at N. Kipshidze University Clinic in Georgia, the University Hospital in Switzerland, the Regional Hospital in Tallinn, Estonia, the University Hospital of Geneva in Switzerland and the Cardio-Thoracic Surgery Association of Europe in Linz, Austria, Jo Ann Medical Centre. MD in paediatrics.

Name: **Vakho Kaloiani, MD**
Position: **Head of the Critical Care Medicine Service Department**

The lack of quality of care in a number of areas in the Georgian healthcare system puts strain on critical care units. Gaps in post-operative and critical care services are in the areas of capacity and quality of care, which is the main focus of our critical care medicine service department.

During the last two years, we have added 28 intensive care beds in our hospitals (excluding acquisitions), on the back of the existing demand. We have retrained 133 and recruited 51 intensive care specialists, and retrained 256 nurses that work in critical care departments. Critical care units in a number of our hospitals are working at above 80% capacity, which we expect to enhance. Additionally, for our paediatric critical care units in Tbilisi, we have room to consolidate the units, thus consolidating the expertise and the investment, and consequently improving the quality of service and making operations more efficient. We are due to launch critical care units at our hospitals that are now under renovation. We also undertake continuous medical education and training for our personnel.

Mr. Kaloiani joined GHG in 2014. Prior to this, he worked at Jo Ann Medical Centre in Georgia, the University Clinic CHARITÉ at Humboldt Unviersity in Berlin. Dr. Kaloiani was Chief Clinical Officer of the Central University Clinic (2006-2012 years) and launched the first adult emergency department in the country. MD in Critical Care and Anaesthesiology.

Our strategy continued

We invest in medical equipment and service development to close existing service gaps, ultimately leading the way to a better healthcare in Georgia.

Our focus for the next 2-3 years (continued)

Name: **Levan Sukhishvili, MD**
Position: **Head of the Emergency Care Medicine Service Department**

Emergency units simply did not exist in Georgia until several years ago. To cover the lack of emergency specialists, hospitals had to staff emergency units with over 15 different specialists, which decreased the quality and efficiency of the ER. Strong ER units in each of our hospitals is a cornerstone of our business model, and it implies a strong referral system between community and referral hospitals.

We started addressing this issue in 2011, and this involved two areas: the physical redesign of hospital admission units to transform them into ER units, and staffing with ER physicians and nurses. The former proved most challenging, as there were only 20 licensed ER specialists in the entire country in 2011 and we needed at least four specialists per hospital. Therefore, partnered with the licensed training centre and later we launched our own licensed training centre. Since then, we have launched five emergency units and have three more launches in the pipeline for the next two years.

Mr. Sukhishvili joined GHG in 2013. Prior to that, he worked at Jo Ann Medical Centre and Regional Hospital Sachkhere in Georgia, Schuchtermann Klinik in Germany. MD in Critical Care and Anaesthesiology.

As of the date of this report, Mr. Sukhishvili does not work with GHG.

Name: **Salome Glonti, MD, PhD**
Position: **Head of the Clinical Trials Coordination Unit**

During the last three years, the number of clinical trials carried out at our healthcare facilities has increased from three to 35. The team comprises of over 30 Clinical Research Coordinators, over 30 Principal Investigators and over 50 Investigators across 12 sites. We conduct phase II, and phase III international multi-centric clinical trials, upholding ethical standards as defined by GCP, GOG, WHO, the Helsinki Declaration, and the US Government DHHS/OHRP. In 2015, Batumi Referral Hospital received an INSPIRE site status. Our goal is to further increase the scope of our engagement in the clinical trials carried out in the Caucasus region.

Ms. Glonti joined GHG in 2013, when we launched the Batumi Referral Hospital. In addition to coordinating clinical trials at our healthcare facilities, she is head of the Internal Medicine department and Endocrinology unit at GHG's Batumi Referral Hospital. Author of more than 30 scientific works. She is a member of the European Association for the Study of Diabetes (EASD) and the European Thyroid Association (ETA).

Name: **Nur Balaban, MD, PhD**
Position: **Head of the International Sales**

The shortage and poor quality of medical services in Georgia lead to about US$100 million worth of medical services taking place outside Georgia annually, which means Georgians travelling to Turkey, Israel and Europe for healthcare services. On the other hand, prices of healthcare services in Georgia are the lowest in the region, at least half of the prices charged in Turkey, which is an opportunity for attracting medical tourism to the country.

For the next several years, the main focus of my unit is two-fold: 1. Reverse tourism – work with the heads of medical service units to identify and develop services where we have service gaps so that Georgians can use services locally instead of travelling abroad; 2. Medical tourism – attract patients from the neighbouring countries for the services where we have relatively good quality and competitive prices. Currently, this primarily includes specialised surgery (cardio, neurology, transplantology, plastic surgery, urology, radiation therapy, etc.).

Ms. Balaban joined GHG in 2015 after 11 years of academical work and consultancy both in Ministerio de Salud in Santiago Chile and Universidad Catolica de Chile in Santiago. Various terms of time worked as a field surgeon with Medecins Sans Frontieres in Kosovo, Bosnia, Palestine, Iraq, Afghanistan, Nicaragua and Argentina. Most recently Ms. Balaban was general and international manager at Tinaztepe Hospital in Turkey. Studied Medicine at University College London.

Continued focus on improving operational efficiency and utilisation to improve margins.

We will continue to optimise the cost of running our business and increase our margins, particularly by continuing to improve operational efficiency and utilisation.

Having centralised most of our administrative functions, we have freed up resources at the healthcare facility level and are now focused on achieving further efficiencies. In particular, we are focused on improved resource utilisation through expanded KPIs and benchmarking against internal and international best-practice targets. We intend to further centralise or consolidate services such as blood banks, laundry and waste management, within the regions. We will also seek further consolidation of administrative functions such as archives, additional call centres and clinical engineering. We plan to conduct personnel assessments to optimise staffing levels over the coming years throughout our healthcare facilities and improve our claims resubmission (invoicing) process. Among other steps to improve efficiency we plan to increase our ratio of nurses to physicians (which is 0.9:1, as of 30 June 2015, compared to the World Health Organisation recommendation of 4:1). This will allow physicians to delegate more tasks to nurses and free themselves up to attend to a greater number of patients. Our in-house training centre is integral to our plans to increase the supply of trained nurses, together with the nurse collage, which we recently launched with the leading Georgian medical school. We are also developing our internal Evex Quality Standards, which comply with both the regulation of medical records by the Georgian regulatory authorities, and with best practice international standards.

We intend to maximise our capacity and expand capabilities within our network in order to increase the utilisation of our existing healthcare facilities. In particular, we will seek to expand the range of services and eliminate service gaps, particularly in oncology, paediatrics, cardiology, critical and emergency care, ophthalmology and plastic surgery. We believe that demand for these services is demonstrated by the number of patients who currently travel to other countries for treatment. We plan to focus on providing patients with the most up-to-date treatment procedures and medical technology available on the market, and to make greater use of minimally invasive techniques. This will allow quicker recovery times for patients and more procedures to be performed at ambulatory clinics, with earlier and more widespread use of diagnostic techniques allowing earlier and more targeted treatment. In addition, we completed development of our facilities in the Samtskhe Javakheti region (which dated back to the Soviet era and did not meet Evex Quality Standards or national standards) by renovating the hospital space and installing new technologies, which we expect will significantly increase utilisation rates. We are on track in renovating two hospitals in Tbilisi, Deka and Sunstone, as well as launching six new ambulatory clusters in 2016. In March we rolled out our new enterprise resource planning (ERP) system for data collection and analysis to standardise quality levels throughout our hospitals and clinics and implementation processes. This system will also help us track capacity in a consistent manner across the network and identify areas for improvement. We also believe that our plans to focus on the expansion of our ambulatory clinics will improve our operating margins because these facilities are more efficient to operate.

Leverage opportunities from the reform of the Georgian healthcare sector to increase our self-pay medical insurance customer base.

We will continue to focus on deepening the vertical integration of our healthcare services and medical insurance businesses to attract self-pay customers seeking to top up their UHC coverage through private medical insurance. We will do this by offering integrated solutions, improving the effectiveness of our clinical pathways and demonstrating our value proposition through excellent clinical results, all of which are designed to expand the market for private insurance customers in an open and collaborative manner. We aim to reinforce our key relationships through referring family physicians and through the expansion of our ambulatory clinics while including additional and more complex procedures delivering attractive returns for our healthcare services business. Over time, this is expected to create increased volume for providers who are both efficient and clinically effective: areas in which we believe we are leaders.

We will seek to maintain our existing market share in medical insurance by growing it in line with the market. We will focus in particular on growth in self-pay medical insurance revenue, which we aim to triple by 2018. We expect that the basic coverage provided under the UHC will enhance the value of the additional service that we provide and will generate further opportunities, as patients seek quicker treatment, better quality service and facilities, or procedures that are not covered by the UHC, by topping up or substituting their state coverage through private medical insurance. We are developing new products designed for the private retail medical insurance market as well as business customers including a “top up” insurance product to be sold through our hospitals.

Initial public offering

GHG – successfully listed on the premium segment of the London Stock Exchange in November 2015

In November 2015, GHG successfully priced its IPO and completed a premium listing, raising a total of approximately US$100 million in primary proceeds. This valued GHG's market capitalisation at £218 million at admission, with a 35% free float.

GHG received strong support from a diversified and extremely high-quality institutional investor base and welcomed more than 100 new investors as it embarks on the next phase of development. Following completion of the IPO, at the beginning of 2016, GHG was included in the FTSE All Share Index

A public listing enhances GHG's ability to take advantage of the significant market growth prospects of the Georgian healthcare sector. Most of the primary proceeds of approximately US$100 million are being used to fund GHG's immediate growth plans, aimed at helping it to achieve at least a doubling of 2015 revenue by 2018. GHG's clear growth vision, combined with hospital expansion potential and first mover advantage in the highly-fragmented and relatively under-penetrated ambulatory segment, creates a highly attractive investment opportunity in the Georgian healthcare services industry.

The Boards of Directors and management teams of BGEO Group PLC (the majority shareholder of GHG) and GHG appreciate the growth potential that GHG has and many of the members have invested in the IPO. As the leading healthcare company in Georgia by both revenue and number of beds, GHG offers investors an opportunity to diversify their holdings and benefit from an emerging market business with a successful track record and strong future prospects.

GHG IPO – LSE Premium Listing in November 2015

Brokers

citi

Jefferies

Renaissance Capital

GALT & TAGGART
CREATING OPPORTUNITIES

Numis

Accountants

EY
Building a better working world

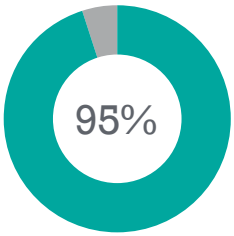
Lawyers

Baker & McKenzie

Proskauer

Institutional investors – strong support[1]

Institutional Investors represent 95% of the IPO book



Individual
Institutional

Top GHG – AR shareholdings[1]

T.Rowe Price	4.8%
LGM Investments	3.4%
Wellington Management	3.1%

Geographically well-diversified[1]

US & Canada	31%
UK & Ireland	24%
Luxemburg	19%
Scandinavia	8%
Other	18%

US & Canada
UK & Ireland
Luxemburg
Scandinavia
Other

Note:
1 As of 31 December 2015

Key performance indicators

An outstanding performance

Our KPIs for 2015 reflect a strong performance in each of our healthcare services and medical insurance businesses, and demonstrate excellent organic growth with improving margins.

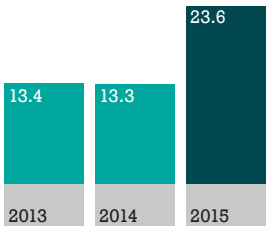
p.104-147
For more information on our financial results

Returns KPIs

Diversified revenue sources across healthcare facilities and medical insurance, a growing number of healthcare facilities and an enhanced service mix were the main drivers of the exceptional results in terms of profitability in 2015.

The improving EBITDA margin is a function of our scale and focus on efficiencies, and reflects in particular the substantial growth in Tbilisi during 2015 reflecting higher utilisation levels in our healthcare facilities in the capital. The resulting robust growth in organic revenues, the contribution of newly acquired healthcare facilities, strong margins and improving cost efficiency translated into a 78.1% growth in profit.

Profit (GEL million)

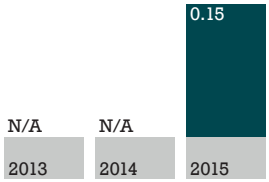


Profit is calculated in accordance with IFRS and represents revenue less cost of goods sold and operating expenses, net non-recurring expenses and tax expense.

23.6

+78.1% y-o-y

Earnings per share (GEL)

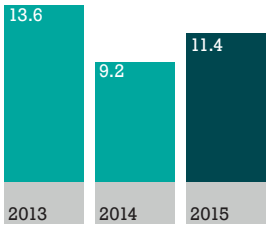


Profit attributable to shareholders divided by weighted average number of outstanding shares.

0.15

N/A

Return on Average Equity (Adjusted)

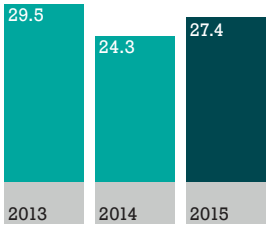


Profit attributable to shareholders divided by monthly average total equity attributable to shareholders. Total equity attributable to shareholders is made up of share capital, additional paid-in capital, treasury shares, retained earnings and other reserves.

11.4%

+2.2ppts y-o-y

EBITDA Margin



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

27.4%

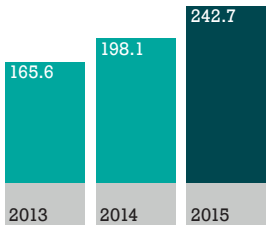
+3.1ppts y-o-y

Growth KPIs

The record revenue of GEL 242.7 million for 2015 was primarily driven by the 32.5% growth in our healthcare services revenue, of which 17.3% was organic and 15.2% through acquisitions and other.

In 2016 and beyond, we will continue to focus on profitable revenue growth, driven by a combination of organic growth and the integration of recently acquired hospitals, mainly focusing on Tbilisi. We plan to increase our market share in the fast-growing, highly- fragmented and under-penetrated outpatient market, invest in medical equipment, utilise existing service gaps, particularly in oncology, high-tech diagnostics, laboratory, and specialist services; continue to lead the market in the quality of our medical care; drive margin improvements through operational efficiency and utilisation levels in our facilities; and maintain our existing market share in medical insurance and triple our 2015 self-pay insurance revenue.

Revenue (GEL million)

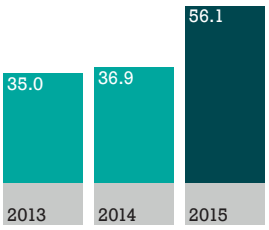


Revenue comprises Healthcare services revenue from both inpatient and outpatient services and Net insurance premiums earned from medical insurance.

242.7

+22.5% y-o-y

EBITDA (GEL million)

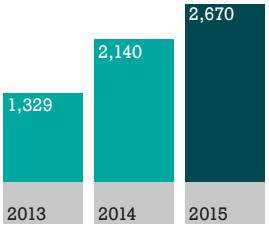


EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's Profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring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

56.1

+52.3% y-o-y

Number of hospital beds

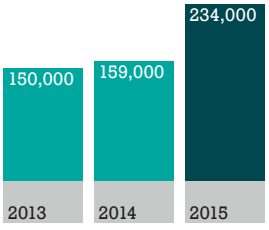


Represents number of existing beds in inpatient hospitals including referral and specialty hospitals and community hospitals.

2,670

+24.8% y-o-y

Number of private insurance policyholders



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

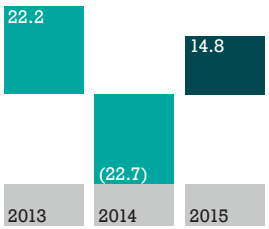
234,000

+47.2% y-o-y

Efficiency KPIs

The combined effect of the increasing share of referral hospitals in our revenue mix, the increasing number of ambulatory clinics and growth of our medical insurance, and the integration activities carried out throughout 2015 at the healthcare facilities acquired during 2014 and 2015, is the main driver of efficiency strategy for our business. Other measures such as various investments in IT aimed at optimisation of workflow processes and the implementation of centralised cost administration represents the cost control measures we continue to deploy across the board in order to keep a tight grip on costs. A string of acquisitions in recent years, has placed an upward pressure on costs as synergies have not yet been fully realised from these acquisitions.

Operating leverage

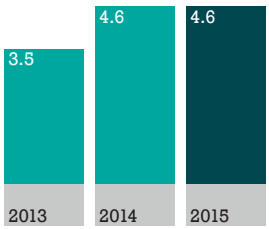


Operating leverage is measured as the percentage change in revenue less the percentage change in operating expenses.

14.8%

+37.5ppts y-o-y

Average length of stay (days)

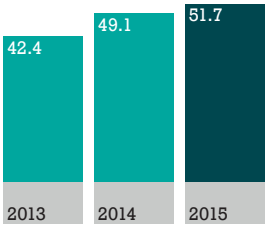


Calculated by dividing the sum of inpatient days by the number of patients admissions for the same period.

4.6

+0.0% y-o-y

Hospital bed occupancy rate

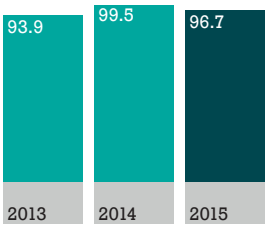


Calculated by dividing the number of total inpatient nights by the number of bed days (number of days multiplied by number of beds) available during the year.

51.7%

+2.6ppts y-o-y

Combined ratio



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

96.7%

–2.8ppts y-o-y

Sustainability

Being a leading healthcare provider in Georgia we are committed to adopting our approach to sustainability in our operations. Our goal is to develop long-term relationships with our main stakeholders, patients, employees and society, as well as taking into account our impact on the environment.

By implementing effective, evidence-based medicine and scientific methodologies and healthcare quality management, we will satisfy our patients' needs and deliver solid financial performance. As employees are a fundamental tool in this endeavour, our strategy is to attract the most qualified medical personnel and constantly develop them in line with international best practices.

Quality matters

Ensuring a high quality of medical care is essential for the Georgian Healthcare Group. The recent change in our management team and a new business strategy initiated a number of fundamental changes in the way we approach quality of our services. We strive to build an effective model of quality management based on patients' preferences, evidence-based medicine and scientific methodologies. For this purpose we have adopted a quality management programme and started to develop a 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

In 2015, we 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 best international practices. In 2016, quality management will encompass every clinic in the network and sophisticated quality measures and indicators will be employed.

To manage the programme we work in committees as well as in working units. Both of them operate at local and head office levels.

Committees

In 2015, we defined the main functions of committees: identification of key quality and safety measures for hospitals, creation of key recommendations for improvement based on analysis of quality metrics throughout the network, trend observation and programmes approval. We started with the head office and a few clinics but in the future committees for all referral hospitals will be formed. It is planned that committees will meet at least twice a year. At community hospitals, a chief clinical officer will cover quality management activities.

Working units

Working units are responsible for execution of defined quality management goals and objectives. They collect medical data in hospitals and carry out their own analysis for further centralised reporting. Before 2015, there was only one single working unit responsible for all hospitals' quality management and it operated from the head office. In 2015, we made it a goal to establish a working unit in each of our hospitals to allow proper attention to quality matters at the local level. By the end of 2015, we already had 73 professionals in all existing working units: six of them in the head office, 22 in regional referral hospitals and 45 in other hospitals. Furthermore, to adjust working units to their new functions we revised their structure, defined staff positions, responsibilities, and job descriptions. Now each working unit has a chief quality officer, a quality control junior specialist, an epidemiologist and a hospital infection and prevention nurse.

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

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

Occasionally the units participate in other cross functional and special projects. For instance, they set safety criteria for construction of hospitals in terms of infection control, patient safety, design and facility requirements for David Kodua medical centre (DKC) in Tbilisi.

Databases

We understand that effective quality management can only be based on the monitoring of reliable indicators. Therefore creating our own adequate Group-wide databases is one of our major priorities. In 2015, we put mechanisms in place that routinely monitor core clinical activities. We already have quality and safety core indicators databases for our units with the highest risk (ICU, NICU, PICU) ready to be set on server. We have also created databases for mortalities, prenatal care, penalties, medical errors and case reviews. An effective reporting and feedback system is also being created.

We are getting started with developing of a trauma registry programme. So far, we have met with the national Centre of Disease Control (CDC) representatives and created the main document describing the system of trauma registry for hospitals. Currently, our plan is to discuss this programme with the CDC South Caucasus Office and to identify key points for collaboration on this matter with the Ministry of Health.

Quality standards

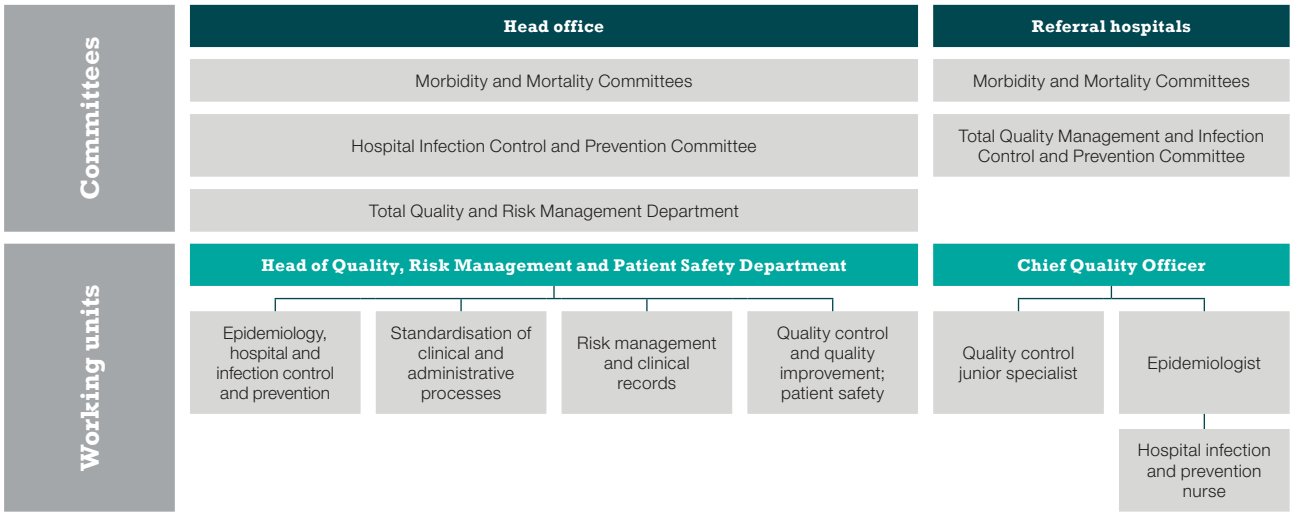
We strongly believe that for better quality management we need to standardise our clinical and administrative practices. We use both national guidelines and recommendations offered by international professional organisations as a base for standardisation. In 2014, we signed a memorandum of collaboration with Joint Commission International (JCI), an accreditation institution for health care entities with high patient safety and quality standards. We have closely cooperated with

Quality management

The Quality Management Programme's main objectives are to:

- implement quality methodologies, quality principles and quality management system
- apply a scientific approach in quality management
- adopt interdisciplinary approaches to problem solving and team working encouragement
- implement unified approach to all steps of quality improvement: planning, development, implementation, measurement, analysis
- understand patient expectations and exceed them

Figure 1: The Group's quality management organisational structure



JCI experts to develop internal regulations, measures and indicators in accordance with its standards. So far, we have put in place quality improvements for antibiotic therapy of obstetric patients. Continuously collecting information through the data collection system will serve as a basis for further clinical practice analysis.

As another tool, centrally, we create protocols and pathways for our physicians and nurses based on the best domestic and international guidelines. These protocols and pathways serve as a tool for the standardisation of basic processes related to clinical activities. To track the effectiveness and adoption of adjusted processes we perform selective clinical audits. In 2015, we conducted first audits of activities related to pneumonia and urinary tract infection treatments in two of our referral 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 (HAI). We aim to enhance patient safety by integrating effective infection prevention and control practices into our everyday clinical practice.

One of our major projects in 2015 was a tuberculosis (TB) prevention programme for hospitals. This was a unique project in collaboration with The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the funding for the project was primarily provided by the US Agency for International Development (USAID). As a part of the collaboration, a workshop on TB control in hospitals was conducted in 2015. Consequently, we created a new *TB prevention programme* which we plan to implement in our referral hospitals in 2016.

To equip our staff with hands-on experience on all new procedures and policies, we conducted relevant training. A number of our intensive unit care (ICU) head nurses and infection control (IC) nurses have already completed *Training of trainers* courses and are now capable of training other nurses.

Independent medical case review process

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

In 2015, we designed a new process of medical case review in the head office and in Kutaisi referral hospital. Based on this review, we discuss recommendations for improvements with medical staff, then we supervise improvement processes in hospitals. As a next step we are going to spread out the experience gained in this project throughout our network of hospitals. We also plan to organise our own training courses in near-miss reviewing methodology.

Employee matters

Each of our employees plays his/her role in the delivery of quality healthcare services being an integral part of the Group's success. We are rapidly expanding our healthcare operations and our headcount is growing accordingly. In 2015, the number of our employees increased by more than 1,500 totalling 9,649 people, which makes us the biggest private employer in Georgia. To satisfy the growing needs of our business it is our first priority to effectively attract, retain and develop qualified professionals[1].

Note:
1 Excluding Poti clinical hospital.

Table 1: Infection control and prevention training

Training	Number of participants in 2015	Categories of participants: ICU heads	ICU head nurses	IC nurses	Epidemi-ologists	Hospital chief nurses
Introduction to the HAI and infection prevention and control	28	✔	✔	✔	✔	
HAI surveillance, definitions and reporting forms	27	✔	✔	✔	✔	
Hand hygiene assessment tool kit	15		✔	✔	✔	
Infection prevention and control skills and procedures	23		✔	✔	✔	✔
Training of trainers for infection prevention and control skills	15		✔	✔		

Resources and responsibilities continued

Figure 2: Current and prospective infection control and prevention initiatives

Completion timeline

2015

- Infection control and prevention manual for nurses
- Standard operating procedures (SOPs) for infection control and prevention
- Hand hygiene assessment tool kit

2016

- Baseline assessment of hand hygiene
- Assessment of sterilisation in hospitals in Imereti Region
- Databases for infection control surveillance

Ongoing

- Definitions and reporting forms for healthcare-associated Infections (HAI) surveillance
- Waste management policies
- Sterilisation unit renovation project in Batuli referral hospital (to ensure the proper zoning)
- Kutaisi and Akhalkalaki/Akhaltsikhe sterilisation units renovation process
- System of data collection

In order to manage our workforce efficiently, we are in the process of adopting two modules of HR software systems: an HRMS data management system and a recruitment management system. Both systems are being tailored to satisfy our operating needs and to be in conformity with our HR policy. The software will significantly increase automation and optimise workflow of many HR related organisational procedures, including employee data administration, recruitment data processing, and statistical and analytical reporting.

We recognise the importance of observing human rights and are committed to implementing socially responsible business practices. Our Human Rights Policy establishes priorities and puts control procedures in place to provide equal opportunities and prevent discrimination or harassment on any grounds, including disability. Our Human Rights Policy applies to all employment processes, training and development.

We are committed to employee engagement. We believe that knowledge of our Group is key and 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, including via departmental managers, presentations, our intranet, e-mail and regular townhall and off-site meetings. We also value the views of our employees. We consult with our employees regularly and have implemented feedback systems, such as frequent employee satisfaction surveys, which 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 focused orientation and client servicing approach.

The Group gives full and fair consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise. The Group ensures that disabled persons are fairly treated in respect of training and career development. Should an employee become disabled when working for the Group, we will endeavour to adapt the work environment and provide retraining if necessary so that they may continue their employment and maximise their potential.

Talent attraction

To ensure necessary amount of human resources for our growing business and to maintain the unquestionable professionalism of our teams we constantly look for new ways of attracting the most talented and skilled specialists. The Employee Planning and Recruitment Division is responsible for this process as well as for staff planning and recruitment. The Division applies different approaches to ensure a continuous pool of candidates for ongoing and planed recruitment needs, including:

- Job fairs and "milky ways" in universities;
- Internship programmes with universities;
- Postgraduate education residency programmes;
- Open and free trainings by EVEX Learning Centre;
- Partnership with medical associations in Georgia and abroad;
- Head hunting for key specialist and managerial positions (including Georgian specialists working abroad), etc.

MoUs with nursing colleges

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

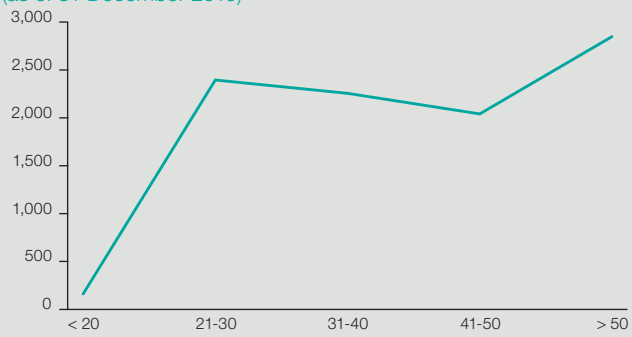
MoUs with universities

- 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

Personnel factsheet

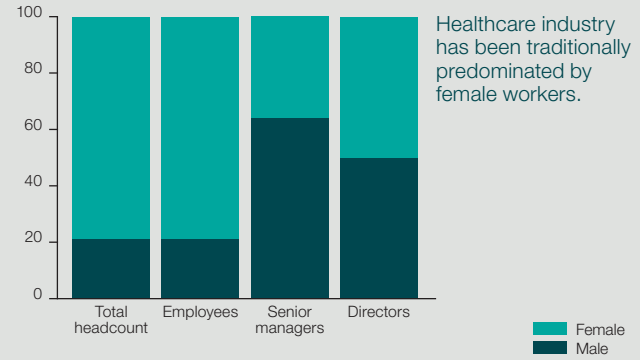
Total headcount of the Group broken down by age

Figure 3
(as of 31 December 2015)



Gender distribution per employee category

Figure 4
(% as of 31 December 2015)



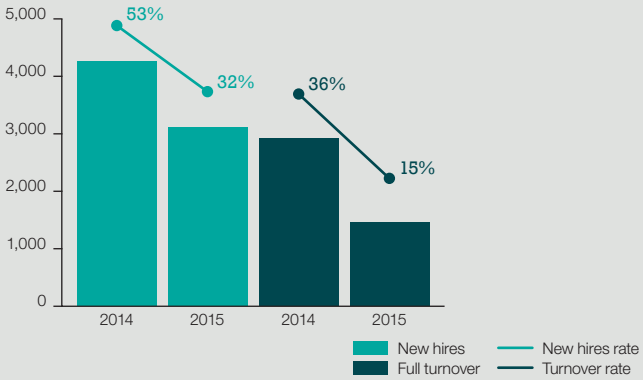
Healthcare industry has been traditionally predominated by female workers.

Headcount of EVEX broken down by employee category

Figure 5
(as of 31 December 2015)

Total number and rate new hires and employee turnover

Figure 6



Headcount of Imedi L broken down by employee category

Figure 7
(as of 31 December 2015)

Table 2: Total headcount per employee category broken down by gender as of 31 December 2015 and 31 December 2016

2014

	Directors	Senior managers	Employees	Total
Female	3	14	6,281	6,298
Male	9	27	1,716	1,752
Total	**12**	**41**	**7,997**	**8,050**

2015

	Directors	Senior managers	Employees	Total
Female	5	18	7,602	7,624
Male	4	34	1,986	2,025
Total	**9**	**52**	**9,588**	**9,649**

Note:
1 Excluding Poti clinical hospital.

Resources and responsibilities continued

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

Job fairs

Job fairs are one of the most effective tools for attracting young talent. During 2015, our Recruitment Division organised eight job fairs and meetings with students at leading universities in Tbilisi and other regions of Georgia. In addition, we participated in four job fairs arranged by external organisations. Around 300 students were recruited at these job fairs for nurse, intern and junior doctor positions. In 2015, our main provider of medical human resources was Tbilisi State Medical University, where we recruited 54 students for nurse positions and nine for junior doctor positions.

Memorandums of Understanding with universities

Medical educational institutions are our main resource of emerging talents. Both EVEX and our own learning centre – EVEX Learning Centre – established partnerships and signed Memoranda of Understanding (MoU) with two types of educational institutions: nursing colleges and universities. We provide them with our clinical sites for various educational purposes, including basic on-the-job education, training programmes and affiliated residency programmes. For instance, in 2015 EVEX Learning Centre conducted free one-year nursing training for 188 Kutaisi nursing college students and graduates. Eventually we offered jobs to 26 successful graduates of this programme in EVEX clinics in Kutaisi.

Training and development

We invest a lot of effort and funds in various professional education opportunities – mostly for nurses and physicians. In 2015, EVEX spent GEL 1.04 million on training and development. These funds mostly covered nursing training, emergency room specialists' training and training of specialists for the oncology centre in Kutaisi.

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 international standards. Our learning centre independently develops and runs a variety of Continuing Professional Development Programmes (CDP). Most of CDPs are medical training for physicians and nurses, yet non-medical staff, such as hospital administration and registry employees, participate in them as well. In 2015, EVEX trained 1,960 nurses, 1,720 physicians and 403 administration employees.

Training courses for physicians are based on national guidelines and protocols and the latest international discoveries. As for the nurse training, there are no national standards or regulations for CDP or vocational education programmes in Georgia. EVEX is a pioneer in these areas, and we have created our own protocols, guidelines and training modules.

Residency

In line with our strategy to develop a new generation of doctors, we launched a postgraduate educational residency programme in a number of fields. These programmes ensure development of qualified specialists in the areas where EVEX lacks physicians. So far, we have observed high interest in such programmes – we received 120 applications from prospective residents since the launch of the programme in December 2015.

Partnerships

Among education institutions, we highly value partnership with Tvildiani Medical University and the college it established together with EVEX. Having an international background, Tvildiani Medical University is one of the most popular medical universities in Georgia. The partnership includes joint effort to ensure high-quality educational standards, promotion of nursing care in Georgia and attraction of fresh graduates. EVEX covers 20% of the costs of this initiative. Also, EVEX provides excellent students with support to study by offering a system of grants and student loans. Successful graduates will be offered jobs in EVEX hospitals, which is an additional incentive for them to demonstrate high academic performance.

EVEX's Learning Centre's CDPs

- Nurse training programme
- Internal medicine
- Obstetrics & Gynaecology
- Paediatric
- Infection prevention and control of epidemic
- First aid
- Information technologies
- Service quality standards

Table 3: EVEX's Residency programmes

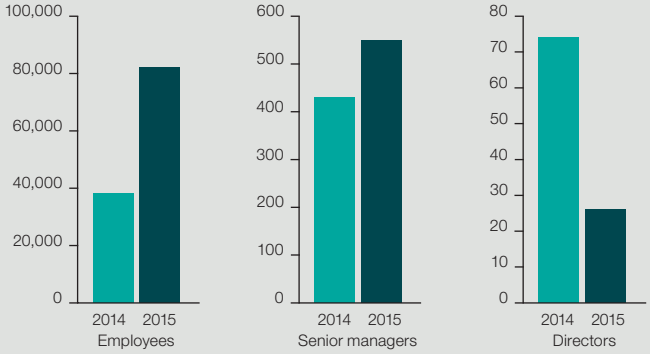
Programme name	Duration in years	Number of available spots
Children Neurology	3	10
Paediatric ER	3	8
Obstetrician and Gynaecology	3.5	10
Anesthesia reanimation	3	15
Podiatry	3	35
Neonatology	3	11
Children cardio Rheumatology	3	6
Laboratory medicine	2	11

Employee motivation

EVEX has implemented a performance management system and pay-for-performance culture. At the beginning of

Total number of training hours

Figure 8



Average number of training hours (per employee category)

Figure 8b

each year, all business units plan collective and individual goals that would help them meet annual Key Business Objectives (KBO). Annually or semi-annually, our employees undergo performance assessment based on KBO and other competencies that reflect our values and strategic objectives elaborated by Board of Directors.

Table 4: Employee benefits

Type of benefit	Number of participants in 2015	Total market value of the benefit (GEL)
Pension plan	57	–
Malpractice insurance	1,248	6,240
Medical insurance	1,693	8,465
Presents for nurses	8,457	–

We created both financial and non-financial motivation schemes to increase productivity and job satisfaction among our employees. These incentives vary for different types of employees depending on the nature of their job. For instance, front office employees who communicate directly with our patients can receive additional pay and a share-based bonus compensation for good performance. Beyond tangible rewards, we offer non-monetary benefits that include medical insurance, malpractice insurance, pension plans, and allowances for accommodation, transportation and mobile expenses coverage.

In order to maintain equal treatment of all staff and promote employee awareness of their rights and obligations, EVEX uses one single version of Employee Handbook for every employee in its every legal and business unit. The Handbook conforms with the Labor Code of Georgia and is a part of the employment contract. The following topics are disclosed in the document: code of ethics, appointment and termination policy, working schedule, salary and payment rules, vacation, benefits, administrative sanctions, communication with media, confidentiality.

Community matters

The Group serves three quarters of Georgia's population and strives to promote healthy living and support wellbeing of local communities. We use our medical expertise when looking for ways to positively impact the society. That is why in our social initiatives we focus primarily on providing pro bono medical assistance, developing medical infrastructure and improving health literacy of the Georgian population.

In 2015 the Group significantly increased its financing of existing sponsorship and charity projects and started new ones. As a result, the Group's total sponsorship and charity expenses increased more than 4.5 times in 2015 and amounted to GEL 509,190.

In 2015, we started new projects to grasp a wider set of issues in Georgia and make our sponsorship and charity activities more diverse. For instance, we invested GEL 94,644 in the construction of the first Children's Hospice. Also we financially supported people who suffered from the floods in Tbilisi.

Free medical services

Construction of Children's hospice

In 2015, we started the construction of the first Children's Hospice where children will receive free palliative care for chronic and incurable diseases. Three main types of service will be provided by the hospice:

- 24-hour care on the hospice's premises for ten children;
- Day care centre where children will have an opportunity to stay with their parents and get necessary services; and
- Home visit and homecare service.

By now, the Children's Hospice has already started providing homecare services for 15-20 children on a monthly basis. The construction of the facilities is planned to be completed by the end of 2016.

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 Tbilisi Iashvili Children's Central Hospital, a multi profile paediatric medical establishment. Our clinic is a unique provider of this service in Georgia, on which about GEL 1.27 million is subsidised yearly. In 2015, 169 young patients received treatment under this programme.

Disaster recovery assistance

In 2015, our doctors provided first aid assistance to Tbilisi flood victims suffering from various injuries. Sixteen of our physicians assisted over 1,000 people harmed by this disaster. We also extended our sympathy to those we could not help in person and transferred GEL 25,000 into a dedicated fund to help families affected by the flood.

Free medical check-ups

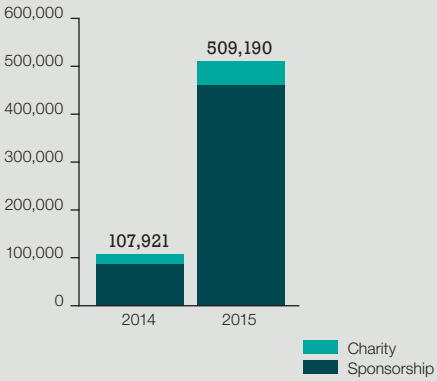
We provided free regular medical examinations in six regions and 12 cities of Georgia, serving the socially and economically disadvantaged parts of the population. In 2015, we organised 20 general healthcare check-up events, where 1,034 patients were seen by our 176 physicians free-of-charge.

Health literacy promotion

Sponsoring medical TV programmes is our way of promoting health literacy, which helps us reach a wide range of the Georgian population. We have four educational TV shows: *The Doctors*, *Day Show*, *Impulse* and *Medical hour*. All shows share 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, health news, healthy recipes and helpful tips are also broadcast during the shows. As our medical TV programmes proved to be very popular in 2014, we increased

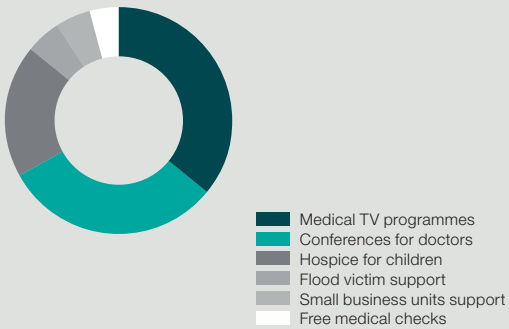
Total sponsorship and charity expenditure of the Group

Figure 9 (GEL)



Sponsorship and charity expenditure distribution in 2015

Figure 10 (%)



Resources and responsibilities continued

Table 5: Types of educational TV shows for the general public:

Name of the TV show	Launch date	Frequency	Format	Reach (RCH) rating[1] in 2015
The Doctors	August 2014	Every Sunday on Rustavi 2 channel	Anchors and show guests discuss practical health and wellness issues	17.03%
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 certain health issue	7.73%
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	–

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

Table 6: Conference sponsored in 2015:

Conference name	Place	Date	Main topics covered
GIMPHA (Georgian International Medical and Public Health Association) 2nd International Health Conference	Batumi	13-14 June 2015	Lung oncology, breast oncology, palliative care, acute delirium in terminal care, rational usage of antibiotics, diabetes, metabolism of thyroid hormones, acute stroke treatment
Advancing neonatal care in Georgia – resuscitation, neuroprotection and congenital cardiology	Tbilisi	18-20 November 2015	Vermicular hypoplasia, hypoxic-ischemic encephalopathy, complex congenital heart surgery, 2015 neonatal resuscitation programme guidelines
Current diagnostic approaches in pathology practice	Lopota	9-11 October 2015	Scientific-practical seminar covering diagnostic topics
European paediatric orthopaedic society first regional conference	Tbilisi	6-7 June 2015	Paediatric orthopaedics and trauma
Focal epilepsy in neonates and epileptic encephalopathy	Tbilisi	14-15 December 2015	Epilepsy
First national conference for paediatric rheumatology	Tbilisi	21 November 2015	Fever of unknown origin, systemic juvenile idiopathic arthritis, diagnostic echocardioscopy criteria of rheumatoid heart disease, movement disorders in rheumatology, diseases with periodic fever syndrome, eye damage in rheumatology, Kawasaki disease

their scale and financing from GEL 20,000 in 2014 to GEL 177,180 in 2015.

Conferences for doctors
We believe that professional medical education is a building block of healthcare quality in Georgia. For this reason, we make an effort to develop a healthy learning environment by financing international and local conferences. In 2015, 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 more than doubled our support of conferences (from GEL 66,512 to GEL 149,684 respectively).

Environmental matters

We recognise that our operations impact the environment and we responsibly approach this matter. Most of the Group's impact comes from medical waste generation and combustion of fuels both for stationary use and for owned vehicles. We also affect the environment by using significant amounts of water in our hospitals, purchasing electricity and paper. Although our overall negative impact is not comparably high, we still aim at becoming more recourse efficient and environmentally friendly.

Waste management
Hospitals' most significant environmental impact is associated with generation of medical waste. Environmental risks can be significantly minimised with proper waste handling and disposal. Our waste management procedures are compliant with the Georgian legislation which defines risk categories and appropriate procedures of medical waste treatment.

Our clinics collect and dispose of medical and biological waste through a properly outsourced service, in compliance with the national laws and regulations, to prevent human and environmental harm. 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 bags' capacity. Further, steam sterilisation is used to decontaminate biological and biohazardous waste, including blood. All used sharps are placed only in proper sharp disposal containers. On average waste is collected from our sites twice a week and the maximum interval between collections is one week.

We pass our waste to a local company specialising in medical waste disposal. To ensure the reliability of our contractors we examine their certificates and monthly reporting as well as imposing penalties if necessary. In total, our hospitals generated 125 tonnes of medical waste in 2014 and 115 tonnes in 2015 (8.7% decrease).

Greenhouse gas emissions management
To light up our hospitals' premises and run medical equipment we consume thousands of kilowatts of electricity yearly. In fact, electricity usage accounts for about a half of our total greenhouse gas generation. To decrease this negative impact we plan to implement a number of energy saving solutions, such as installation of LED lights and energy efficient equipment, in the nearest future. 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. Still there was an increase of Scope 2 emissions in 2015 mainly due to electricity consumption by our new major hospitals that we acquired during 2015 and at the end of 2014 in Tbilisi:

- High Technology Medical Centre University Clinic (HTMC), a 450-bed major and well-established referral hospital (2015);

Table 7: Total GHG emissions for 2014 and 2015, tonnes of CO_2e

	2014	2015
Scope 1 (emissions from combustion of fuels in stationary equipment and in owned transportation devices)	4,570	**4,517**
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	5,473	**8,093**
Scope 3 (emissions from air travel and land transportation)	1,545	**2,385**
Total GHG emissions	11,589	**14,996**
Total GHG emissions per FTE	1.44	**1.55**

Table 8: Projects we plan to implement:

Project	Positive impact on the environment	Project timeline	2015		2016
			Activities carried out	Results	Plans
Installation of e-document flow	Natural resources conservation, electricity saving (for printing), waste reduction	2015-2016	Implementation, setup, startup	Several hundred of paper packages saved	Implement in EVEX
Installation of system for reusing water	Decrease in water withdrawal from sensitive ecosystems, decrease in waste water discharges	2016	Startup	–	Under consideration
Creation of our own water wells	Energy saving due to minimisation of water transportation and natural filtration of water	2016	One water well was set up	100 tonnes of water saved	Set up four additional water well
Delivering gas instead of diesel to the mountain regions	Greenhouse gas emission reduction	2016	Startup	–	Finish works and save 15 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 ecofriendly 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 three clinics

- Deka LLC owning a hospital with a 310-bed capacity (2015);
- Traumatology hospital with a 60-bed capacity (end of 2014);
- Sunstone Medical LLC owning a hospital with a 332-bed capacity (end of 2014).

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 for the boundaries of two Group's businesses:

- EVEX, which includes its head office, hospitals and other entities where the Company has operational control;
- Imedi L, which includes its head office.

Scope 1 (combustion of fuel and operation of facilities) includes emissions from:

- Combustion of natural gas, diesel, and petrol in stationary equipment at owned and controlled sites;
- 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;
- Used heat and steam.

Scope 3 includes emissions from:

- Air business travel (short haul and long haul); information of the class of travel is unavailable hence we used an "average passenger" conversion factor;
- 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

Overview

The Directors acknowledge that they have overall responsibility for risk management, the Group's system of internal control, for reviewing the effectiveness of those controls and for ensuring that an appropriate culture has been embedded throughout the organisation. In accordance with the guidance set out in the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial Business Reporting, and in the UK Corporate Governance Code itself, an ongoing system has been established for identifying, managing and evaluating the risks faced by the Group. This system has been in place for the period ended 31 December 2015 and up to the date of approval of the Annual Report.

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.

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.

To assist in the identification and management of the Group's principal risks, the Board has developed a system of regular reports from management and reserved specific key matters for its decision.

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.

Key elements of the Group's system of internal control which have operated throughout the period are:

- well-defined procedures for the assessment, approval, control and monitoring of major capital projects, including acquisitions and disposals;
- a robust Board committee structure, each of which deal 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;
- 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;
- reviewing and monitoring the operation of the whistleblowing facilities in place to allow staff to raise concerns 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 each Audit Committee meeting of the internal and external auditors; and
- Updates, on a quarterly basis, to the Management Board in relation to the Group's financial risk profile, policies, limits and ratios.

Effectiveness Review

As part of the listing process, the Directors performed a robust assessment of risks facing the Group, including those that would threaten its business model, future performance and liquidity. As part of this exercise, a detailed review of the operation and effectiveness of the Group's system of internal control was undertaken by management and the Board reviewed its effectiveness. Further assurance was obtained by internal audit and the external auditors.

The Board was able to conclude with reasonable assurance that the appropriate internal control and risk management systems were maintained throughout the period. The review did not identify any significant weaknesses or failings in the systems. The Board, in conjunction with management, continually reviews and develops the internal control environment.

The Board therefore confirms that throughout the period ended 31 December 2015 and up to the date of approval of this Annual Report, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, as documented on pages 47 to 49 including those that would threaten its business model, future performance, solvency or liquidity in accordance with the Guidance on Risk Management, Internal Control and Related Financial Business Reporting published by the Financial Reporting Council.

Going Concern Statement

The Directors, having made appropriate enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (which is for this purpose a period of at least 12 months from the date of approval of these financial statements). Accordingly, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements. The principal risks and uncertainties, together with their trend and outlook and mitigating actions is set out on pages 47 to 49.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required to make the going concern statement. The Board conducted the review as part of the IPO process and concluded that a viability period of three years would be most appropriate taking into account the Group's current position and the potential impact of the principal risks documented on pages 47 to 49 of the Annual Report. The principal risks identified are those that pose the greatest risk to the viability of the Group. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2018.

A period of three years was deemed to be appropriate because the Group's working capital model and business planning cover a three year period. In addition, as part of the IPO process a complete stress test for a period of three years had been undertaken. Finally, the Group operates in an emerging market with a rapidly evolving business environment which makes a longer forecast period highly speculative.

Therefore, whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it appropriate to form an expectation as to the Group's longer-term viability, is the three year period. This period provides the Board with sufficient, realistic visibility on the future in the context of the industry environment.

Principal risks and uncertainties

The table below describes the principal risks and uncertainties relating to the Group's operations and their potential impact, as well as the trend and outlook associated with these risks and the mitigating actions taken to address these risks.

It is not possible to fully mitigate all of our risks, and there may be other risks and uncertainties besides those listed below which may also adversely affect the Group and its performance. More details on risk management can be found in the following sections of this Annual Report: Audit Committee Report pages 78 to 80, Clinical Quality and Safety Committee Report page 81 and Risk Management pages 46 to 59. Identified below are those risks that the Board considers to be the most relevant to the Group in relation to their potential impact on achievement of its strategic objectives. All of the risks set out below could materially affect the Group, its business, future operations and financial condition and could cause actual results to differ materially from expected or historical results. The risks below are not the only that the Group will face. Some risks are not yet known and some currently not deemed to be material could later become so.

Risks and uncertainties	Trend and outlook	Mitigation
We might not be able to expand our business in line with our strategy, realise our revenue and growth targets or achieve the intended benefits or operating synergies from these projects. According to our strategy, we plan to more than double our 2015 revenue by 2018, capture one third of the Georgian hospital market and increase our market share in the outpatient market. Achieving this will place significant demands on our management and operational resources.	We have made significant progress in each of our strategic priorities during the year. At the beginning of 2014, the Group had 28 hospitals with 1,329 hospital beds. At the end of 2015 we had 35 hospitals with 2,670 hospital beds representing a substantially increased market share of 26.6% of Georgia's total hospital beds. We have continued to expand significantly in the higher revenue hospital segments in Tbilisi with the acquisition, in August 2015, of the High Technology Medical Center University Clinic (HTMC). Furthermore, we have already started renovation work on two other facilities, which we expect to become fully operational as multi-profile hospitals in 2017. Our strategy to increase our share of healthcare revenues through the roll-out of a national network of ambulatory clinics has begun. By the end of January 2016 we had opened four ambulatory clusters in a number of high-population density areas in Tbilisi and one in Kutaisi, the second largest city in Georgia. We plan to open at least a further six ambulatory clusters in Tbilisi and other major cities in Georgia during 2016. We are achieving operating synergies in line with our plans and expect to continue to do so.	The Group is focused on the execution of our growth strategy and reorganising and adding management capacity to better ensure that we meet our targets. The Group has a solid track record not only of making but of integrating acquisitions. We have a dedicated integration team comprising highly experienced professionals with extensive integration project experience. The integration team meets at least weekly to discuss all aspects of the integration process, including but not limited to financial, commercial, clinical, human resources and legal matters.
We operate in an evolving regulatory environment. We cannot predict what additional regulatory changes will be introduced in the future or their effect.	Since 2007, there have been a number of reforms and profound transformations in the Georgian healthcare services market aimed at achieving higher standards of care, modernisation of equipment and facilities, wider access to healthcare and lower healthcare costs. We expect that the regulatory environment will continue to evolve in the advancement of these goals, but that future developments will be less fundamental than was the structural shift to universal healthcare.	Continued investment in our people and processes is enabling us to meet our regulatory requirements and position us well to respond to changes in regulation. In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes as part of our formal risk identification and assessment processes. As part of this process, we engage in constructive dialogue with regulatory bodies, where possible, and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls as required to fulfil our compliance obligations. The legal department regularly consults with ministries, regulators and tax authorities.

Risk management continued

Risks and uncertainties	Trend and outlook	Mitigation
We might not be able to predict in full the effects of Georgia's recently implemented Universal Healthcare Programme. Our strategy assumes that the limited cover available under the programme will help increase demand for private medical insurance. However, these opportunities may not materialise.	The increased focus on the Universal Healthcare Programme in Georgia has seen a substantial shift in revenues towards the healthcare services market leading to an industry wide significant reduction in medical insurance revenues from the previously in-force State Insurance Programme. As a result our medical insurance business experienced a 20.8% reduction in revenues during the year. Our private medical insurance has shown resilience and revenue from private medical insurance products grew by 32% with an increased customer base of approximately 234,000 people holding our medical insurance policies as at 31 December 2015.	In the medical insurance business, we plan to leverage opportunities from the reform of the Georgian healthcare sector to increase our private medical insurance customer base. We will continue efforts to optimise pricing, introduce differentiated products, better target sales efforts and increase our sales force. We will continue to use the medical insurance business as a feeder for our medical services business, a role that will, we believe, be enhanced in the future as we roll-out our ambulatory growth strategy.
We compete with other state and private providers of healthcare services across Georgia. In some cases, competing healthcare providers in certain regions are more established than we are, and may have greater experience, infrastructure and brand loyalty than we do. Our competitors may consolidate, develop alliances or adopt predatory pricing policies to capture market share. Our reputation for high clinical standards could suffer if our quality declines or our competitors improve their services.	We are the largest provider of healthcare services in the country. In addition, we are the only provider so far that is consolidating in the fragmented Georgian healthcare services market. We have the widest population coverage (being accessible to over three quarters of the 4.5 million Georgian population) and the greatest geographic reach within the country. We remain the only healthcare institution in Georgia to undertake in-house training of our own personnel. Since the beginning of 2014, we have invested over GEL 3.0 million in training and have a dedicated staff of 45 trainers.	We will seek to protect our reputation for high clinical standards, which we believe continues to drive demand for services at our healthcare facilities and attracts more patients and physicians which, in turn, helps us further enhance our reputation for high-quality care and strengthen our relationships within the local community. In 2015 we successfully launched unique services in the country such as liver transplant surgery, children's cardio surgery, oncology radiotherapy in western Georgia. We will continue to focus on the training and education of our staff, as well as sourcing a new generation of medical personnel.
Our healthcare services business depends on revenue from the Georgian government and a small number of private insurance providers. We expect that this concentration of revenue sources will continue. Accordingly, our future success and ability to obtain favourable prices will depend in part on our ability to maintain good working relationships with private insurance providers and may be impacted by any changes to state-funded healthcare programmes.	The Universal Healthcare Programme remains a significant priority for the government and government expenditure on healthcare will increase by 81.4% from GEL 487.9 million in 2013 to GEL 885.0 million according to the approved government budget for 2016. This ongoing increase in expected government healthcare spending underpins the substantial organic growth opportunities for the Group. The government's budgeted spend on healthcare however still remains low, compared to many other countries, at just over 2% of GDP and approximately 7% of annual tax revenues. We expect the government to continue prioritising healthcare services.	The Group monitors the macroeconomic environment in Georgia and budgetary performance of the state to assess the forecasted future cash flows from the state.
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. These disputes have led to sporadic violence and breaches of peace keeping operations. Regional tensions could have an adverse effect on the local economy and our business.	Despite tensions in the breakaway territories, Russia has opened its market to Georgian exports. Russia and Ukraine's relationship has continued to deteriorate. As a result, there is significant uncertainty as to if, how and when the conflict between Russia and Ukraine will be resolved. Russia/Turkey tensions have developed with the escalation of the Syrian crisis, and Armenia/Azerbaijan tensions continue unabated. Georgia continues to grow in spite of the regional tensions. During 2015, Georgia delivered real GDP growth of 2.8%, whilst inflation was maintained below the 5% target range. Foreign Direct Investment continued to be strong and tourist numbers – a significant driver of US$ inflows for the country – continue to rise. As a result, the Georgian government's fiscal position continues to be strong.	Georgia has taken significant steps to reduce its dependence on Russia and Ukraine. Even without Russia, Georgian exports have more than tripled since 2005 to US$2.9 billion in 2013. With the recent economic turbulence in Russia, exposure to the Russian market is once again receding. In 2014 Georgia and the EU signed an association agreement introducing the deep and comprehensive free trade area (DCFTA), effective since 1 September 2014, which is intended to simplify Georgia's access to the EU market. The Government continues to maintain strong relationships with international development partners. An ongoing IMF programme, introduced in July 2014, is intended to help implement the government's economic reform programme and aims to reduce macroeconomic vulnerabilities and dependency on the public sector, and increase policy buffers and support growth, while making the economy more resilient to external shocks.

Risks and uncertainties	Trend and outlook	Mitigation
Political and governmental instability in Georgia could have a material adverse effect on the local economy and our business. Business and investor friendly reforms may not continue or may be reversed or such reforms and economic growth may be hindered as a result of any changes affecting the continuity or stability of the current coalition government or as a result of a rejection of reform policies by the president, the parliament or others.	Georgia is one of the fastest growing countries in Eastern Europe, with real GDP growth averaging 5.8% during 2005 to 2014 (according to Geostat) and is considered an open market in which to do business. Growth-oriented reforms and ongoing economic liberalisation since becoming a WTO member in 2000 have transformed Georgia into a country that is ranked by the World Bank as more business friendly than both Switzerland and France. In 2014, Moody's and Fitch upgraded the outlook on Georgia's sovereign credit rating to positive, citing improved economic prospects and the provisional application of the DCFTA.	Regular meetings of the supervisory board Audit Committee and the Management Board are aimed at analysing such risks, elaborating responsive strategies and action plans and in this way mitigating such risks. The Management Board employs a number of legal, accounting and macroeconomic advisors and analysts that help the Group navigating through these risks by means of timely identifying them and proactively managing them.
The Group are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on our financial position and cash flows. Our functional currency is the Georgian Lari and our principal transactions are carried out in GEL. Our exposure to foreign exchange risk arises primarily with respect to the US Dollar and the Euro. While all of our revenues and expenses are in GEL, a significant part of the medicines and medical disposables that we purchase are imported and the prices are pegged to foreign currency (mostly US Dollars and/or Euro). Furthermore, the prices of almost all of the medical equipment that we purchase are also set in foreign currency (mostly US Dollars and/or Euro). A significant portion of our borrowings (primarily loans to fund our expansion plans) are denominated in US Dollars.	We expect significant improvement in our earnings from the first quarter of 2016 onwards, due to reduced expenditure on interest as we pre-paid GEL 104.4 million borrowings at year end 2015/beginning of 2016 from IPO proceeds, which reduced total borrowings to GEL 105.6 million, as at 31 January 2016. As a result of pre paying the borrowings, our net debt to EBITDA was zero at the end of 2015, due to cash and bank deposits exceeding borrowings.	The Group continuously monitors market conditions and reviews market changes, performing stress and scenario testing to assess our financial position in adverse economic conditions. The Group's currency risk is controlled by setting sensitivity loss limits. Its open currency positions are managed by the finance department on a day-to-day basis and are monitored by the head of reporting and analysis on a real time basis. We have established limits on possible losses for each type of operation and monitor compliance with such limits.
The Group's business processes and risk management structures are in the process of being developed and until they are fully developed the risks associated with weaknesses in the processes and structures are higher than they will be when the new processes and structures are in place.	As part of the IPO process a number of policies and procedures were put in place in order to ensure that we had a robust governance structure in place.	The Group is in the process of designing and implementing new business processes and risk management structures designed to better manage the business and ensure that these risks are mitigated as far as possible, including processes and structures relating to: clinical processes and medical records; information technology and information security; product pricing; operational risk, corporate security and business continuity; and risk management in the insurance business.
The Group has recently signed a binding memorandum of understanding to acquire a 100% equity stake in JSC GPC, a retail and wholesale pharmaceutical distribution business. If consummated, this acquisition will bring a new business line to the Group and there are risks that we may not be able to integrate the business and functions and therefore gain the necessary synergies and that management may be distracted from other business priorities.	While retail pharmacy operations represent a new business for the Group, JSC GPC and the Group together will be the largest buyer of pharmaceuticals in Georgia and GHG Management expects to be able to eliminate unnecessary costs, deliver on cost synergies. In addition, some JSC GPC pharmacies today offer ambulatory clinical services, and the Group plans to realise cost and revenue synergies in developing its more profitable ambulatory business.	GHG management is experienced in integrating new businesses into the Group. In addition, the Group has taken action to strengthen its team. David Kiladze JSC GPC's CEO for more than 20 years will continue to lead the JSC GPC business and George Arveladze has recently been appointed as the Deputy CEO in charge of the ambulatory and pharmaceutical business of the Group. George has extensive experience in the Georgian retail sector.

Managing risk effectively

The following discussion may not contain all the information that is important to readers of this Annual Report.

A discussion of the Group's risk management and internal control framework can be found on page 46. The Group's principal risks and uncertainties are outlined on pages 47 to 49. The Clinical Quality and Safety Committee Report and the Audit Committee Report can be found on pages 78 to 80, respectively. In addition, Note 37 of the accompanying consolidated financial statements provides additional detail regarding risk management procedures.

Overview

The GHG Board is ultimately responsible for the Group's risk management and internal control framework.

Our approach to risk is founded on a strong risk management culture. Managing risk is engrained 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 own the risks and risk management processes associated with their activities.

The GHG Board determines the Group's risk appetite and monitors risk exposures to ensure that the nature and extent of principal risks are aligned with the Group's overall goals and strategic objectives. The GHG Board has adopted formal policies and procedures which set out the system through which risks are identified, assessed, quantified, managed and monitored. Clearly delegated authority levels and reporting lines have been established and comprehensive reporting forms an integral part of our framework.

The GHG Audit Committee and GHG Clinical Quality and Safety Committee support the GHG Board in overseeing the risk management framework, the internal control infrastructure, monitoring risk exposures and reviewing the effectiveness of the risk management and internal control systems.

Overall risk management structure

Management of risk is fundamental to the healthcare and insurance businesses and is an essential element of the Group's operations. The main risks inherent in the Group's operations are clinical risk, credit risk, liquidity risk, market risk (including foreign currency and interest rate risks), operational risk and legal risk. The following is a description of the Group's risk management policies and procedures in respect to those risks. Business risks such as changes in the environment, technology and industry are monitored through the Group's strategic planning process.

The Group's risk management system is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:

- risk identification;
- quality and quantity assessment of a particular risk;
- determination of an acceptable risk level;
- placement of authority limits and creation of reserves;
- use of mitigating actions and mitigation strategies;
- ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made; and
- analysis of efficiency of the risk management system.

The Group conducts its risk management activities within the framework of its unified risk management system.

Risk management bodies

The principal risk management bodies of the Group are the: Board of Directors, Audit Committee, Clinical Quality and Safety Committee, Management Board, Financial Risks Committee (in progress), Pricing Committee (in progress), Internal Audit Department, Credit Risk Management and Bad Debt Collection Unit, Total Medical Quality and Safety Unit ("TMQS"), Funding and Market Risk Management Unit, Operational Risk Management Department ("ORMD"), Tax Risks Unit and Legal Department.

Board of Directors

The Board is responsible for the Group's risk philosophy and appetite, overall risk management approach and for approving risk strategies and principles and is ultimately responsible for identifying and controlling risks.

The Board approves the Group's risk policies, which outline risk control and monitoring procedures and the Group's risk management systems and approves certain decisions which fall outside the scope of the respective authorities of the Committees and/or Management Board. The Group's Management Board presents a comprehensive risk report to the Board for their review on an annual basis.

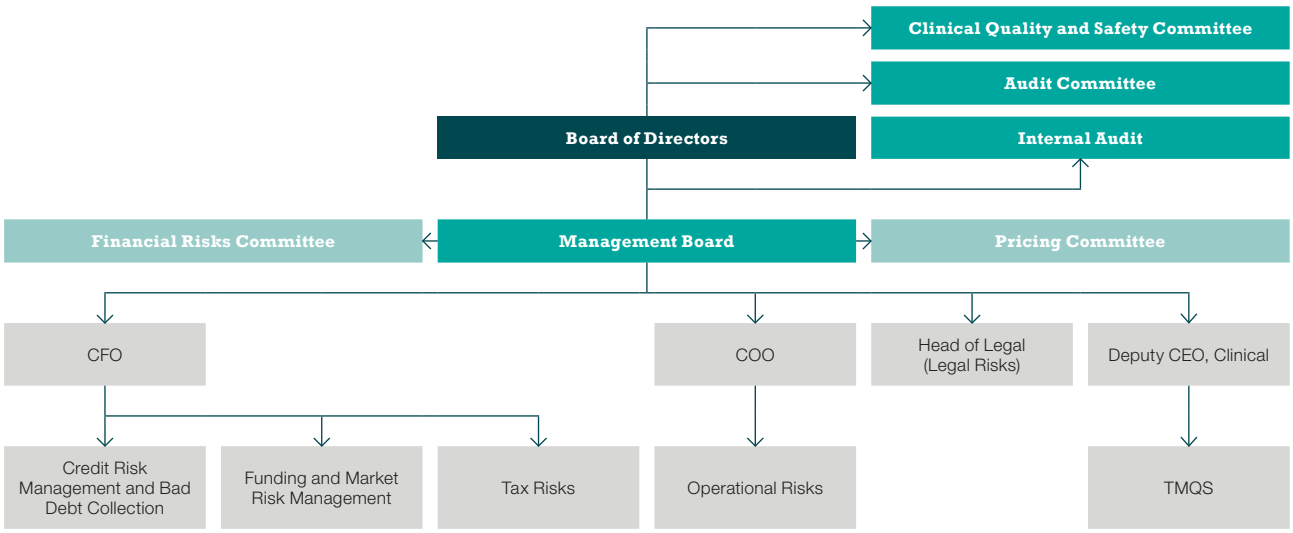
Audit Committee

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.

Clinical Quality and Safety Committee

Clinical Quality and Safety Committee supervises clinical/medical quality and safety, overall, as well as ensuring that the clinical risks are monitored, supervised and managed properly. While the respective quality and safety risk management system is implemented by the TMQS. The latter prepares different reports and analysis for the Clinical Quality and Safety Committee and engages in discussion of the findings and risk areas for further mitigation and

Risk management bodies of GHG



improvement. Interaction is at least semi-annual, however, may be more frequent, upon identification of reportable conditions and risks. There are three strategic areas that the Committee monitors and undertakes control over: clinical and regulatory risks, health and safety and facilities and plant. The Committee will define and approve key policies and targets for the TMQS during the year.

In the following areas in particular, the Clinical Quality and Safety Committee will:

(a) Clinical and regulatory risks
- (i) review the Group's clinical performance, including against KPIs, providing recommendations and information to the Board to enable them to discharge its responsibilities in relation to the matters reserved to it;
- (ii) scrutinise the adequacy, effectiveness and quality of the Group's clinical services, governance, clinical risk management and auditing processes and policies (including, in relation to infection control) to ensure the delivery of safe, high-quality clinical services to patients;
- (iii) scrutinise all unexpected deaths occurring in hospital sites, ensuring root causes and action plans are adequate, and reporting these to the Board;
- (iv) review evidence of compliance with statutory notification requirements, as well as responses to statutory notices issued by competent authorities, and reporting these to the Board;
- (v) review evidence of compliance with regulation and the Group's policies and procedures in respect of clinical care and quality, including the statutory duty of candor, where triggered, and reporting this to the Board;
- (vi) review themes and trends in relation to claims and complaints, and patient experience and feedback, relating to the Group's clinical practices;
- (vii) review the Group's information governance policy and processes and any breaches thereof, particularly in relation to Patient Identifiable Data;
- (viii) review the themes, trends and management response to external regulatory visits and inspections and to the Group's relationship with the regulators generally; and
- (ix) review the Group's clinical risk management and internal control procedures annually.

(b) Health and safety
- (i) review the Group's health and safety performance;
- (ii) scrutinise the adequacy, effectiveness and quality of the Group's health and safety policy and procedures to ensure safe environment for those at the Group's facilities (including staff, consultants, patients and visitors); and
- (iii) scrutinise the health and safety reports prepared by management, to identify themes and trends and to ensure an appropriate management response;

(c) Facilities and plant
- (i) review the engineering risk management register; and
- (ii) review the Group's engineering, facilities and plant risk management arrangements, policies and performance, including carbon reduction policy.

Management Board

The Management Board has overall 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 will delegate individual risk management functions to each of the various decision-making and execution bodies within the Group.

Risk management continued

Internal audit department
The Internal Audit Department is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems, and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy of and the Group's compliance with those procedures. Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to both the Audit Committee and Clinical Quality and Safety Committee.

Internal Audit Department is independent of the Management Board. The Head of Internal Audit Department is appointed by the Board and reports directly to the Audit Committee and Clinical Quality and Safety Committee. The Internal Audit Department has ten employees.

As part of its auditing procedures, the Internal Audit Department is responsible for the following:
- identifying and assessing potential risks regarding the Group's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Group's policies, plans, procedures and business objectives, as well as to current legislation and regulation and professional norms and ethics;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Group's branches and subdivisions and auditing its subsidiaries;
- analysing the quality of the Group's services and products;
- reviewing the reliability of the information technology systems in accordance with a predetermined schedule;
- assessing the reliability and security of financial information;
- monitoring the Group's internal controls and reporting procedures;
- participating in external audits and inspections by the insurance regulator;
- making recommendations to management and the Audit Committee on the basis of external and internal audits to improve internal controls;
- monitoring the compliance of the Group with the healthcare as well as insurance regulations; and
- monitoring the implementation of auditors' recommendations.

Pricing Committees (in progress)
Pricing Committee is a managing unit (an executive sub-committee of the Management Board) operating for the efficient management of the Company's pricing policies for its healthcare services and products, as well as for the efficient management of the Company's pricing mix, for the gross margins and overall profitability. Pricing Committee is being currently established in the Group and will be up and running in 2016. The Committee shall involve sales pricing of the healthcare services and related strategies, as well as supplier management through the procurement cycle and related strategies for supplier price risk mitigation and efficiency management. Gross profit (price margins) analysis and management is also the responsibility of the Pricing Committee.

Key responsibilities of the Pricing Committee include the following:
- pricing and tariff setting policies for the Company's services and products;
- harmonisation of the Company's tariffs and prices with UHC;
- setting the most efficient price mixes and development of respective guidelines and procedures for the Commercial Department for its further implementation;
- monitoring of the Company's gross profit margins and overall profitability.

Pricing Committee sessions will be held quarterly. Common agenda of the Pricing Committee session includes (a) update on existing price lists and tariffs and their comparison against UHC and competitors; (b) Identification of the weak areas of the existing pricing/tariff sets and mixes; (c) review and analysis of the price efficiency models and gross profit margins and profitability models presented by the Company's Reporting and Analysis Unit; (d) elaboration of suggestions for the respective changes in the Company's prices/tariffs or price mixes or respective policies and procedures during the service rendering process. Regularly, on a quarterly basis, the Management Board shall be updated in respect with the pricing and tariff policies and procedures and guidelines for the Commercial Department.

Financial Risks Committee (in progress)
The financial Risks Committee is a managing unit (an executive sub-committee of the Management Board) operating for the efficient management of the Group's financial risks. The financial Risks Committee is being currently established in the Group and will be up and running in 2016. The Financial Risks Committee is responsible for the detection of financial risks, their prevention and analysis and management of the Group's risk related portfolios for adequate measurement of the actual level and value of all risks, assessment and measurement of the credit quality of the Group's assets as well as its stress testing for the purposes of better financial risk management.

Key responsibilities of the Financial Risks Committee include the following:
- setting financial risks policies and guidelines for implementation by the Finance department;
- regular review and assessment of the key metrics set by the Committee for each particular financial risk;
- analysis of deviations from the set limits and parameters in those key metrics;
- identification of major concentration or increased levels of risks and elaboration of responsive measures;
- regular update of the financial risks policies and respective limits and metrics for measurement.

Financial Risks Committee sessions will be held quarterly. Common agenda of the Committee session includes (a) review and analysis of the detailed financial risks management report provided by the Group's Reporting and Analysis Unit; (b) identification of the key risks and weaknesses of the Group's financial risk profile; (c) elaboration of the amendment courses and responsive action plans; (d) review and approval of key limits and metrics for the measurement of financial risks; (f) review of the funding plan and refinancing risk; (g) elaboration of the Group's financial risks appetite and risk strategies; (h) update of the Group's financial risks register and monitoring over its implementation by the Finance department; (i) forecast of the financial risks and their patterns, individually as well as in aggregate; (j) elaboration of the Group's stress testing models and monitoring of its implementation by the Finance department.

On a quarterly basis, the Management Board shall be updated with the results of the Group's financial risks profile, policies, limits and ratios as well as updated in respect of the financial risks management policies and procedures and guidelines for the Finance department.

Legal Department
The Legal Department's principal purposes is to ensure that the Group's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in the Group's activities in a timely manner, the investigation of the Group's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal

proceedings on behalf of the Group, where necessary, and the investigation of possibilities for increasing the effectiveness of the Group's legal documentation and its implementation in the Group's daily activities. The Legal Department is also responsible for providing legal support to structural units of the Group and/or its subsidiaries.

Implementation of Risk Management Procedures

The Group's risk management system is implemented by the following departments:

Department	Reporting Lines
Finance department	Deputy CEO, Finance
TMQS	Deputy CEO, Clinical
ORMD	Deputy CEO, Operations
Legal department	General Counsel

TMQS

The main goal of the TMQS management group is to support the process of building the organisational excellence in patient care, education and research and to align the Company's mission, vision, values and goals with the medical quality and safety issues. The group is responsible for: creating the organisation structures for quality management in head office as well as in hospitals (facilities), establishing and implementing the evidence based practice and scientific approach to the quality management, supporting the process of standardisation in hospitals, establishing and analysing the trends of quality measures and indicators, identification of gaps for improvement and coordination of improvement projects in the medical facilities, creating the quality reporting system and results feedback system, ensuring compliance with data collection and reporting requirements for governmental and other regulatory agencies, facilitating and ensuring the implementation of patient safety and risk management initiatives, establishing the principles for statistical analysis, creating and managing the infection control/ prevention process and surveillance in the hospitals.

Finance department

The Finance department is in charge of the Financial Risks Management function. It implements the Group's Financial and Tax risks policies by ensuring compliance with: established open currency position limits; counterparty limits and counterparty credit terms for both, receivables and payables; limits on possible losses for the foreign currency and interest rate risks; tax legislations; all policies and procedures set by the Financial Risks Committee. The Finance department administers the entire Financial Risk Management process at the Financial Risks Committee, being represented by the Deputy CEO, Finance. The Finance department also focuses on the Group's relationship with the tax authorities and provides practical advice and tax optimisation plans for the Group and, also, assesses the entire Group's tax risks and exposures and reports to the Management Board.

The finance department also manages foreign currency exchange, money market and derivatives operations and monitors compliance within the limits set by the Financial Risks Committee for these operations. It is also responsible for management of long and short-term liquidity and cash flow and monitors the volumes of cash on the Group's accounts for the purposes of their sufficiency.

The finance department manages credit risks with respect to particular debtors and assesses overall portfolio risks for entire receivables. It is responsible for ensuring compliance with the Group's Credit Risk Policy and approved credit terms, management of the quality of the Group's receivables portfolio. It also prepares analysis of the impaired, aged and bad debts and performs the bad debt (soft and hard) collection function, in accordance with the set out policies.

ORMD

The ORMD is responsible for identification and assessment of operational risk categories within the Group's processes and operations. It is also responsible for detecting critical risk areas or groups of operations with an increased risk level, and developing international procedures to address those risks, including without limitation, developing business-process optimisation schemes, including document circulation, information streams, and distribution of functions, permissions and responsibility.

Risk measurement and reporting

The Group measures risk using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses. These models use probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that could arise in the event those extreme events, however unlikely to occur do, in fact, occur.

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 it is willing to accept. The Group also conducts ongoing monitoring and control allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. 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.

The Group maintains a management reporting system which requires the Finance department to prepare certain reports on a monthly basis. On a monthly basis, a statement of operations, balance sheet, cash flows and financial risk reports (which include the Group's open foreign exchange positions, cash flows, limits and balances on bank accounts, liquidity position and analysis, credit risk position and analysis) are prepared. Based on those reports the Finance department assesses and manages the financial risks and confirms whether or not the Group has been in compliance with the mandatory financial ratios and its policies. Also, on an annual basis, a similar set of reports, including financial analysis, is submitted to the Board to assess the Group's overall performance.

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 report includes aggregate credit exposure, profitability, efficiency and liquidity ratios as well as the risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and draw conclusions on the Group's risk exposure.

Specifically tailored risk reports are prepared and distributed for all levels throughout the Group in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

Risk mitigation and excessive risk concentration

As part of its overall risk management, the Group uses different financial instruments to manage exposures resulting from changes in interest rates, foreign currencies, pricing risk, credit risk and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

Risk management continued

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Clinical risk

The TMQS is in charge of the entire healthcare risk assessment and management. 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, medical records. External sources are: financial penalties, lawsuits, review reports and correction reports issued by the healthcare regulator. Through assessing the proper data and information, the TMQS identifies whether or not each of the medical facility and the Company are in compliance with preliminary defined quality and safety goals. TMQS 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.

The clinical staff and quality management group are actively involved in the risk treatment process. Risk treatment strategies include the following: risk acceptance, risk avoidance and risk reduction and minimisation. Quality staff reviews the measures for risk assessment on a monthly basis: mortality rates, rehospitalisation rate, length of stay, safety measures including intra-hospital infections, complication and adverse reactions rate. Having analysed the data and identifying the trends, quality management group creates a list of recommendations for improvement.

The quality management group reviews the mortality cases identifying cases for detailed analysis. This group also coordinates the mortality and morbidity reviewing activities in the hospitals. Based on the root cause analysis and principles, these activities establish, the opportunities for system improvement. Creating the culture of safety and trust, we encourage the event reporting process. Through monthly analysis of the trends of penalties from state and other official agencies, the quality management group has the opportunity to assess the clinical activities from the legislations point of view. It identifies missed opportunities for improving the quality of medical charts, coding and billing activities. Training of medical and administrative personnel in basics of management is a way to achieve these goals.

The TMQS department reviews quarterly the revenue breakdown and identifies trends according the medical services. Identifying the areas for financial loss and matching these trends with quality of care, it identifies the ways for cost effective improvement of the clinical activities. The department also reviews the standardisation of patient flow, information and documentation flows in the hospitals, to further reduce the process variation and to improve control mechanisms.

The Clinical Risk Management process is a regularly, recurring routine process. The TMQS Department prepares and submits a set of regular reports and analysis to the Management Board and the Clinical Quality and Safety Committee.

Local laws and regulations determine how a medical facility is to be designed, used and maintained. Compliance with the laws and regulation requirements are monitored on a regular basis and results are presented to management. The Company provides regular reporting to the relevant State authorities regarding compliance with the respective laws and regulations. In addition to federal requirements, local authorities also perform annual inspections and report on findings, providing recommendations to the Company to amend and improve identified areas of non-compliance or inconsistencies. The reports are studied and analysed by the Operations department, first of all, and then submitted to the Company's Management Board for discussion. Responsive measures and action plans are being developed, approved and implemented, to address areas of non-compliance and underlying risks.

The Company employs highly skilled and regularly trained technical personnel. These specialists undertake regular monitoring and maintenance of the facilities. Heating, ventilation and air conditioning, power systems and utility systems are maintained by in-house team of technicians. This process is divided into three parts: 1) Testing; 2) Evaluation; and 3) Processing. Technicians ensure that spare parts and accessories are replaced timely and periodically, in accordance with the respective manufacturer's recommendations. For sophisticated facility components and complicated technical maintenance, services are performed by the respectively authorised manufacturer representatives.

The fire alarm and fire safety systems are in compliance with the State regulations including fire-hoses, fire-escapes and evacuation plans. For risk minimisation purposes, the generators, medical gas stations and other high-risk objects are placed outside the main buildings, in specially constructed areas. Other physical safety issues have been examined by an outside consulting agency and an appropriate action plan has been adopted by the Management, which is being currently implemented, in stages.

Medical equipment is maintained either by the in-house team of professional engineers, or by the suppliers of the equipment, or by contracted outsourced companies (authorised service companies only). The maintenance is being conducted in accordance with the specifications determined by the respective manufacturer. The Company maintains a database of all medical equipment it owns, with indication of maintenance requirements, actual maintenance needs and time schedules. The regular performance evaluation, technical check-ups and monitoring of the equipment is conducted by a team of in-house professional engineers.

Normally, and in the vast majority of occasions, new medical equipment has a service and guarantee period from six months to three years. Additionally, the Company has signed multi-year service agreements for maintenance of the high-tech medical equipment.

At least annually, the Company conducts technical check-ups for the entire medical equipment. Check-ups include testing, calibration (if required) and safety checks. Inspectors/engineers are equipped with a wide set of special testing devices and professional equipment for check-ups.

Management is updated by the Operations department through a semi-annual medical equipment status report.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group's capability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. To limit this risk, management has arranged diversified funding sources. It manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable assets (mostly current accounts and time deposits with commercial banks) that it believes can be easily liquidated in the event of an unforeseen interruption of cash flows. It also usually acquires committed lines of credit that it can access to meet its liquidity needs.

The Group has established a comprehensive analysis to be conducted on a regular basis to identify potential liquidity crisis indicators as well as to ensure that sufficient funding of the Group's operations are available at any moment under the Base Case scenario.

The Group defines the asset and liability mismatching risk as the risk that as of any date, the total amount of liabilities to be settled/repaid may exceed the total amount of the readily available cash and cash equivalents or other liquid assets that may be immediately converted into cash. To avoid this, the Group manages maturity matching of financial assets and financial liabilities and imposes a maximum limit on several key liquidity ratios and the negative maturity gaps. The ratios are assessed and monitored on a monthly basis and compared against set limits. In case of deviations amendment strategies/actions are discussed and approved by the Financial Risks Committee. In case of large significant deviations from the set limits of the ratios or negative gaps, the Group assesses the probability of 100% withdrawal of all liabilities as they mature, based on prior history and statistics, during the crisis as well as during usual business conditions. Based on identified liquidity drawbacks, Management defines its respective funding strategies and action plan.

The Group's principal sources of liquidity are as follows:

- Accounts payable;
- International borrowings;
- Loans and borrowings from local commercial banks;
- Debt securities issues;
- Revenue from healthcare services;
- Net insurance premiums earned; and
- Other operating income.

An important tool of liquidity management is a matching of the credit terms between the key receivables, on one hand, and the key payables on the other. The Financial Risks Committee sets the credit terms for both, accounts receivable and accounts payable and sets policies for the respective matching and credit term gaps.

The Group regularly analyses the maturity profile of its financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many suppliers and creditors will not request repayment on the earliest date.

The liquidity Management process is a regular monthly recurring process. Overall, the process is managed through the Liquidity Management framework, approved by the Financial Risks Committee. The framework models the ability of the Group to fund under both normal conditions, under the Base Case, and during a crisis/stressed situations. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed annually to ensure it is appropriate to the Group's current and planned activities. The annual review encompasses liquidity stress testing, the respective funding scenarios modelled, the modelling approach, international as well as local funding capacities, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the Financial Risks Committee prior to approval by the Management Board.

Liquidity management involves:

- ensuring that the Group has sufficient cash and cash equivalents available for funding its regular business operations;
- ensuring that the Group has sufficient cash and cash equivalents that may become needed during unexpected crisis to fund its unusual and extraordinary business operations, including customer accounts payable or borrowings urgency repayments, and other crisis trends, when they occur;
- ensuring that the Group regularly and consistently complies with the internal ratios and liquidity requirements set by the Group's Management for the purposes of ensuring the above goals;
- ensuring that Imedi L regularly and consistently complies with the Insurance State Supervision Service of Georgia (the "ISSSG") liquidity ratio requirement as well as internal liquidity requirements of the Group, as established by Management; and
- ensuring the Group has adequate plans in place for sound liquidity management.

The Group has the following liquidity management policies:

- To maintain ISSSG liquidity requirements at least at minimal required levels in Imedi L;
- To maintain the internally set limits for the key liquidity ratios, such as: negative maturity gap position limit, liquid assets to total debt, liquid assets to total assets, EBITDA to total debt, Debt Service Ratio, Days Sales Outstanding for receivables, net minimal operating cash flows limits, unsecured funding limits, short-term vs. long-term funding limits, long-term debt repayment concentration limits; and
- To be able to continue stable operational activity at least during 30 working days under Distressed Scenarios.

Key liquidity management body of the Group is the Financial Risks Committee.

The finance department is actively involved in liquidity management on a daily basis. The finance department monitors, on a daily basis, those key liquidity ratios and liquidity measures that are analysed by the Financial Risks Committee and Management Board on a monthly basis. Such monitoring involves the ratios described above, short term (up to one month) funding capabilities and funds management, short-term and long-term funding opportunities and capacities, managing operating cash in both Lari and foreign currency, etc.

Liquidity regulatory reporting is limited to the Imedi L's report on the calculation of the minimal adequacy of liquid reserves, as prescribed by the ISSSG.

Risk management continued

The ISSSG liquidity position is assessed and managed by Imedi L primarily on a stand-alone basis, based on the liquidity requirements established by the ISSSG. As of 31 December 2015 the calculation of the liquidity position was as follows:

(Amounts in Georgian Lari)	31-Dec-15
UPR, net of IPR[1]	(1,845)
RBNS	8,152
RBNS, State Insurance Programme[2]	–
IBNR	1,413
Total Insurance Contract Reserve requirements	**9,565**
Loans issued and receivable	957
Real estate registered in Georgia	957
Bank deposits	5,864
Minimum capital requirement	(1,200)
Cash on hand	34
Cash in current and demand accounts with banks	3,165
Total qualifying assets securing reserves	**9,776**
Net position (positive)	**211**

Notes:
1 The formula takes nil as a function of MAX (0, Actual UPR)
2 Is netted against the rest of RBNS

It is a requirement of the ISSSG is to keep the position positive.

The liquidity Risk Management process is a regularly, recurring routine process. The finance department prepares and submits a set of regular reports and analysis to the Financial Risks Committee and the Management Board on a quarterly basis.

The Management Board believes that the Group's liquidity is sufficient to meet each of its present requirements. For information on the Group's liquid assets, liabilities and maturity profile of the Group's financial liabilities as well as further information on the liquidity risk of the Group see Note 37 of the Notes to consolidated financial statements of this Annual Report.

Market risk

The Group is exposed to market risk (including pricing risk, currency exchange rate risk and the interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposures, such as foreign currency and interest rate exposures, arise from open positions in fixed income and/or open foreign currency positions, all of which are exposed to market fluctuations. The general principles of the Group's market risk management policy are set by the Financial Risks Committee. The Group aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Group due to negative changes in currency exchange rates, or interest rates, or quotes on securities. The Group classifies exposures to market risk into either trading or non-trading positions. In order to address these risks, the Financial Risks Committee specifically establishes limits on possible losses for each type of operation and the Finance department monitors compliance with such limits.

Borrowed funds maturity breakdown as at the year-end is as follows:

31 December 2015

Repayment schedule, GEL million	2016	2017	2018	2019	2020	2021	2022
Local bonds	3.4	37.6	–	–	–	–	–
Senior loans	33.7	30.1	28.7	24.2	14.4	12.2	1.0
Total	**37.1**	**67.7**	**28.7**	**24.2**	**14.4**	**12.2**	**1.0**
% of total assets	**4.9%**	**8.9%**	**3.8%**	**3.2%**	**1.9%**	**1.6%**	**0.1%**

As for the pricing risk, it mostly arises from the fact that sales prices set by the Group on its own products and services may vary, due to the Group management reasons or due to competitive or other environmental and regulatory reasons. The Financial Risks Committee regularly reviews the Group's pricing list, compares it against market competitive forces, against the state tariffs through UHC, performs analysis of the pricing structure by products and services and determines the most efficient service/product/sales mix and strategy for improving margins through optimisation of the pricing policies.

Currency exchange rate risk

Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Group's currency risk is calculated as an aggregate of open positions and is controlled by setting a sensitivity loss limits (established by the Financial Risks Committee) with respect to the Group's currency basket. The Group uses the historical simulation method based on one-year statistical data. Its open currency positions are managed by the Finance department on a day-to-day basis and are monitored by the Head of Reporting and Analysis on a real-time basis. The Financial Risks Committee sets open currency position limits with respect to both, short-term and long-term positions and stop-loss limits. Currently, the Group's proprietary trading position is limited by the Financial Risks Committee to 5% of the total shareholders' equity.

Interest rate risk

The Group has exposure to interest rate risk as a result of borrowing at fixed interest rates, subject to regular refinancing needs, at newer market terms, i.e. newer interest rates. The Group's exposure to interest risk also arises as a result of its investment in current accounts, demand deposits and term deposits with commercial banks interest rates on which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

The majority of the Group's term financial assets and term financial liabilities have fixed interest rates. In order to minimise interest rate risk, the Group monitors its interest rate (reprising) gap and maintains an interest rate margin or loss acceptable under the existing circumstances. The Financial Risks Committee sets limits on those gaps as well as defining the interest policies of the Group by defining the interest rate ranges through which financial assets must be invested in or financial liabilities must be attracted at. Compliance with the Group's interest rate policy is monitored by the Finance department.

Pricing risk

The Group has a high concentration of its revenues from state through UHC. The state does not regulate prices for healthcare services and products in Georgia. Both, market forces as well as the contractual terms with the Company's largest client – the State impact the Company's revenues. The pricing risk is the Company's

susceptibility to potential changes and variations in its sales prices for the healthcare services and products, either through market forces or through the state funded UHC. The Pricing Committee, supported by the Finance department performs regular monitoring of the Company's price list and related profit margins, compares them against competitors, to assess competitiveness, and against the UHC, to assess the magnitude of deviations from it and the respective additional out-of-pocket needs for its patients. The Pricing Committee sets the optimal service and product mixes in order to optimise price mixes and maximise profits. The finance department monitors implementation of those mixes and policies in practice.

Market Risk Management process is a regularly, recurring routine process. The finance department prepares and submits a set of regular reports and analysis to the Financial Risks Committee, the Pricing Committee and the Management Board.

The Financial Risks Committee sets minimum or maximum limits (as deemed necessary) on the majority of the above defined ratios/ covenants and exposures. The Pricing Committee sets prices for the Company's healthcare services and products as well as the product/ service mix strategies for the margins/profits optimisation purposes.

The Financial Risks Committee and the Pricing Committee, together with the Finance department, undertake an annual review of the Group's and the Company's market risk profile that outlines the current market strategy for the coming year. This review encompasses trends in the local markets, macroeconomic and regulatory environment affecting the market and competitive forces locally as well as globally, funding and investment alternatives, peer analysis, estimation of the Group's upcoming reprising requirements, estimated market capacity and pricing risk analysis.

Credit risk

The Group is exposed to credit risk, which is the risk that a debtor or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Group's regular sales activities from its healthcare products and services as well as insurance products and services. The general principles of the Group's credit policy are outlined in its Credit Risk Policy. The Credit Risk Policy also outlines credit risk control and monitoring procedures and the Group's credit risk management systems. The Credit Risk Policy is reviewed annually or more frequently, if necessary. As a result of these reviews, new procedures addressing the standards and methodology for provisioning of receivables pursuant to IFRS requirements is implemented and being regularly updated.

The Group manages its credit risk through: the Financial Risks Committee and Finance department, which has a specially designated Risk Management unit and also encompasses the receivables collection functions.

The Group manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate debtors, individual retail debtors and the state, by setting and managing the credit terms for its receivables and by establishing a sound soft collection practice, tailored to the specifics of the credit risk profiles. The Group monitors its credit terms and credit limits, as well as detailed ageing of each debtor to undertake proper measures in respect of each individual debtor. The Group's largest and major exposure of credit risk is the State. It applies the standard sovereign risk to that exposure. On a daily basis the Group monitors state payments performance in close cooperation with the Ministry of Labor, Health and Social Affairs, for the timely settlement of invoices.

The Group additionally monitors the macroeconomic environment in Georgia and budgetary performance of the state to assess the forecasted future cash flows from the state. Exposure to individual corporate or retail debtors is analysed on an individual basis, based on the credit terms, limits and aging. The Group uses a prepayment or, in case of a credit term, a collective, legally binding credit responsibility in case of the individual free flow customers. This enables the Group to faster initiate and execute further collection in case of non-payment. As for the corporate debtors, its majority comprises insurance companies and provider clinics/hospitals. With the majority of these corporate debtors most of them there is a two way movement of services and, respectively invoices. The Group actively uses netting of receivables and payables as the fastest way of settlement with them. For the net receivables, after the netting, properly set and legally well probed collection procedures are applied, in case of non-payment.

The Financial Risks Committee approves individual transactions with large single exposure and large credit risk concentration. It also establishes credit risk categories and provisioning rates in respect of such transactions. The Deputy CEO, Finance and Finance department adopt, in consultation with the Management Board and the Financial Risks Committee, decisions on the acceleration and write-off of the non-performing receivables/debtors.

The Group's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regular revision of the credit terms fulfilment, debt services and ageing analysis. Counterparty limits are established and each counterparty is assigned a risk rating based on the past performance and ageing. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Group's compliance with credit risk exposure limits and credit terms is monitored by the Finance department on a continuous basis. Exposure limits and credit terms are subject to annual or more frequent review. The Group establishes provisions for impairment losses of financial assets (mostly receivables from healthcare services and insurance premiums receivable) when there is objective evidence that a financial asset or group of financial assets is impaired. The Group creates provisions by reference to the particular debtor's credit rating (in case of state and corporate or institutional customers/debtors) and, also, by reference to the past debt service and the aging analysis in respect of all debtors including individuals. 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 by an adjusted provision account. Determination of provisions for impairment losses is based on the Group's credit risk policy and provisioning methodology, which is approved and updated by the Financial Risks Committee, and reflects the amount which, in the judgment of Management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets. Provisions are made against gross amounts receivable.

Under the Group's internal receivables provisioning methodology, which is based upon IFRS requirements, the Group categorises its receivables into the following homogeneous categories: receivables from state, receivables from insurance companies, receivables from corporate customers and healthcare service providers and receivables from individuals. Receivables from state is provisioned at the sovereign credit risk rate of Georgia. Receivables from insurance companies and corporate customers and healthcare service providers on an individual assessment basis, analysing net exposures, analysing the prior history of their debt service and the ageing of current outstanding exposures. Receivables from individuals are assessed collectively, based on the historical loss rates for the unimpaired category (less than 30 days overdue) and collectively as well for the impaired ones (more than 30 days overdue). Collective assessment of the impaired receivables from individuals (more than 30 days overdue) is based on the overdue buckets, aggregating credit exposures by the number of days overdue. The worse is the bucket, i.e. the more is the number of

Risk management continued

days overdue for each particular credit exposure, the higher is the impairment rate. Amounts overdue for more than one year are provisioned from 80% to 100% of the total gross receivable and are further written off and transferred to debt collection service providers.

The Group has a receivables collection unit within the Finance department, which reports to the Deputy CEO, Finance. It analyses overdue bad debt on a regular (monthly) basis, proposes the write off amounts to the Management Board, supervises the soft collection process conducted by the call centre and analyses results and efficiency of the soft collection, monitors hard collection service providers for efficient work.

The credit risk management process is an ongoing routine process. The finance department prepares and submits a set of regular reports and analysis to the Financial Risks Management Committee and the Management Board.

Operational risk

The Group is exposed to operational risks, arising out of the various operational activities in which it is engaged. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, 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.

The Group manages its operational risks by establishing, monitoring and continuously improving its policies relating to the various aspects of the Group's cash, payments, accounting, sales, trading and core processing operations and data backup and disaster recovery arrangements.

The ORMD is responsible for identification and assessment of operational risk categories within the Group's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk zones to neutralise identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. The ORMD is also responsible for developing and updating policies and procedures and ensuring that these policies and procedures meet or exceed applicable legal and regulatory requirements, as well as helping to ensure that significant operating risks stay within acceptable levels. It also conducts monitoring activities and performs periodic assessments of the Group's internal control systems to detect any infringement or errors on the part of the Group's departments and divisions. An operational risk manager (head of the department), who reports to the Deputy CEO, Operations is responsible for the oversight of the Group's operational risks.

Taxation risk

The Group is exposed to taxation risks, arising out of the various economic activities in which it is engaged. Taxation risk is the risk of having additional charges or levies imposed on the Group as a result of non-compliance with the tax regulation, or the risk of material litigations arising from such non-compliance, including the risk of ceasing business due to such litigations.

Brief summary of the Tax Unit is as follows:

- Functions of the Tax Unit involve: 1) tax filing and tax reporting; and 2) tax risk management, tax compliance and tax litigation; these functions are centralised in the Group and cover both, the Company and Imedi L, on a centralised basis
- The tax Unit reports directly to the Deputy CEO, Finance
- Occasionally the Group and its Tax Unit seek external advice and support on taxation matters, from different advisors, involving audit and accountancy firms as well as law firms, under different jurisdictions

Key functions of the Tax Unit are:

- Review of key contracts and issuance of tax approval to the contract owners
- Review of the Group's new products and services or changes to existing products and services and issuance of tax clearance/ approval to the service and product owners
- Regular tax reviews of the Group and its subsidiaries and issuance of respective review and due diligence reports with indication of key risks, potential deviations from tax legislation and respective recommendations

Legal risk

In the ordinary course of business, the Group is also subject to legal actions and complaints arising not only from the Group's usual operations as well as from tax litigations or tax disputes or other regulatory disputes (such as the regulatory matters and other). Legal risk is the combination of:

- the risk of suffering losses from the litigations where the Group is a respondent (tax litigations, customer litigations, regulator litigations, etc.);
- the risk of not winning benefits or recoveries where the Group is a plaintiff (recoveries of receivable, customer litigations, etc.);
- the risk of material breaches of contracts and related covenants with the risk of default to the Group (large lenders, large corporate customers, regulator, etc.);
- the risk of weak contracting with the detrimental or non-feasible terms to the Group (large customers, large suppliers, etc.); and
- the risk of legal non-compliance with the insurance, or healthcare or tax and other regulations effective in the operating environment, that may result in default, or event of default or charges/liens to the Group.

Structure of the Legal department is as follows:

- Litigation team;
- Contractual team;
  - Healthcare and insurance service contracts with customers:
    - Corporate
    - Retail
  - Non-service contracts (such as SPAs, MoUs, asset purchase agreements, rent agreements, etc.)
- Public registry unit;
- Legislative monitoring unit.

Key functions of the Legal department in terms of the legal risk management are:

- Appearing in court as a respondent on behalf of the Group;
- Appearing in court as a plaintiff on behalf of the Group;
- Looking at each case when the Group, as a plaintiff, is represented by other departments;
- Legal compliance of all new services, products or projects initiated by the Group;
- Drafting all types of standard contracts (contract templates) for other departments;
- Drafting all major non-service and non-customer related contracts;
- Drafting cross-border and M&A agreements;
- Monitoring draft legislative changes;
- Advising on changes to current legislation;
- Legal consulting of other departments/employees;
- Organising relation with notary bureaus;
- Providing legal assistance for subsidiaries;
- Working on legal support for funding.

Each new service or product initiated in the Group goes through the Legal department for legal opinion. In most cases the responsible lawyer is involved in the service or product development process from the very beginning. The lawyer assigned to the project assesses the legal risks and gives particular advice to the project team. When the product receives its final form it comes to the legal department before submitting to the Management Board or Board of Directors, as applicable, for final approval from a legal perspective. If there are no legal risks or they are all adequately mitigated and the new service or product is acceptable from a legal point of view, it receives approval from the Legal department.

The Legal department is in charge of the contract drafting process, each standard contract in the Group is drafted by the Legal department. All other departments involved in this process are obliged to use such drafts. Any change in the standard version is subject to approval by the Legal department.

The Legal department has a leading role in the litigation process. It represents the Group as a defendant in every court dispute. The head of Legal together with her deputies maintain a register of all litigations where the Group is a defendant. Each litigation is managed on an individual basis. The probability of the final outcome, for each individual litigation, is also assessed by the Legal department. The Legal department leads the entire process, it decides which internal or external experts need to be involved, and makes other decisions necessary for each individual litigation. Based on the assessment of the probabilities of the outcome, an initial assessment of the entire amount of claim per case, together with the probability assessment is provided to the Finance department. Based on this assessment, the Finance department defines the amount of provision required for each litigation as well as in aggregate. This process is a regular monthly process.

Lawyers from the Legal department appear in court on behalf of the Group, as a plaintiff. The litigation team also looks at each case when the Group, as a plaintiff, is represented by other departments. Lawyers from the litigation team are directly involved in case preparation process.

Legal department is monitoring entire portfolio of cases where the Group is a claimant. It also presents portfolio analysis on a quarterly basis.

Business review

Overview of financial results

We reported record full year 2015 results and strong growth, supported both organically and as a result of a number of acquisitions completed in 2014 and 2015. Our revenue reached GEL 242.7 million, growing at 22.5% y-o-y.

GHG results discussion

GHG's revenue growth of 22.5% was primarily driven by our healthcare services business, which reported revenue of GEL 195.0 million, up 32.5% y-o-y with strong organic growth of 17.3%, and the remaining 15.2% growth coming from recent acquisitions. Our medical insurance business contributed GEL 55.3 million to total revenue, recording a decrease of 20.8% y-o-y, which was primarily driven by the shift to the UHC, partially offset by a strong 32.0% y-o-y growth in revenue from private medical insurance products.

Healthcare services revenue growth of 32.5% was primarily driven by referral hospitals, which posted revenue of GEL 168.5 million in 2015, up 36.6% y-o-y, driven by strong organic growth and acquisitions. Referral hospitals contributed 88% to total revenue from healthcare services. We expect a significant portion of the future growth of our hospital revenue to come from referral hospitals, in line with our strategy to increase our market share to 1/3 across Georgia through further investments in renovation and expansion of existing referral hospital facilities. Our organic healthcare services revenue growth of 17.3% was largely sourced from referral hospitals.

Community hospitals, contributing 9% to total revenue from healthcare services, also posted strong 24.8% growth in revenue to GEL 17.6 million, attributable solely to organic growth driven by the introduction of the UHC.

Ambulatory clinics, contributing only 3% to total revenue from healthcare services, posted revenue of GEL 5.3 million, also up y-o-y as a result of organic growth alone that was mainly driven by our ambulatory clinics in Tbilisi. Currently, we operate ten ambulatory clinics organised in four ambulatory clusters, of which three ambulatory clusters were opened towards the end of 2015. As a result their impact on 2015 financial results was not material. We expect ambulatory clinic revenue to grow significantly faster over the next few years, in line with our strategy of launching an additional 10-12 ambulatory clusters with a total of 20 to 30 ambulatory clinics in the next two to three years.

Revenue from ambulance and rural primary care services was discontinued in the end of 2014 due to the full handover of the administration function related to these services to the government as part of the UHC. The handover contributed to the improvement of our operating margins as our ambulance and rural primary care services line had very low profitability.

Our organic revenue growth of 17.3% was largely sourced from government-funded healthcare programmes, especially the UHC. Since the full roll-out of the UHC in mid-2014, government expenditure on healthcare has grown considerably, increasing 81.4% from GEL 487.9 million in 2013 to GEL 885.0 million, according to the approved government budget for 2016. Out of GEL 885.0 million, addressable market for GHG is GEL 668.1 million, which includes GEL 570 million for the UHC and GEL 98.1 million for other healthcare programmes financed by the state, in addition to UHC. As of 2015, GHG's market share was 22.9% and 12.2%, for the UHC and other healthcare programmes financed by the state, respectively.

Revenue by business lines

(GEL thousands, unless otherwise noted)	FY15	FY14	Change, y-o-y
Revenue from healthcare service, gross	**195,032**	**147,165**	**32.5%**
Corrections & rebates	(3,608)	(1,816)	98.7%
Healthcare services revenue, net	**191,424**	**145,349**	**31.7%**
Referral and specialty hospitals	168,527	123,402	36.6%
Community hospitals	17,623	14,124	24.8%
Ambulatory clinics	5,274	4,961	6.3%
Ambulance and rural primary care	–	2,862	–100.0%
Net insurance premiums earned	**55,256**	**69,759**	**–20.8%**
State funded medical insurance products	–	27,910	–100.0%
Private medical insurance products sold to retail clients	5,406	3,607	49.9%
Private medical insurance products sold to corporate clients	49,850	38,242	30.4%
Eliminations	**(7,615)**	**(18,776)**	**–59.4%**
Total revenue, gross	**242,673**	**198,148**	**22.5%**

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	FY15	FY14	Change, y-o-y
Revenue from healthcare service, gross	**195,032**	**147,165**	**32.5%**
Corrections & rebates	(3,608)	(1,816)	98.7%
Healthcare services revenue, net	**191,424**	**145,349**	**31.7%**
Government-funded healthcare programmes	145,732	80,913	80.1%
Out-of-pocket payments by patients	34,802	32,623	6.7%
Private medical insurance companies, of which:	10,890	31,813	–65.8%
GHG medical insurance	7,431	18,465	–59.8%
Net insurance premiums earned	**55,256**	**69,759**	**–20.8%**
State funded medical insurance products	–	27,910	–100.0%
Private medical insurance products	55,256	41,850	32.0%
Eliminations	**(7,615)**	**(18,776)**	**–59.4%**
Total revenue, gross	**242,673**	**198,148**	**22.5%**

Our revenue from government-funded healthcare programmes was GEL 145.7 million, up 80.1% y-o-y. The dramatic growth was primarily driven by the UHC and more than offset the anticipated decline in revenues from private medical insurance companies under the previous system, which slid in 2015 to GEL 10.9 million.

Out-of-pocket payments by patients increased to GEL 34.8 million. The UHC places coverage limits on medical treatments, co-payments and has certain exclusions (i.e. charges that are not covered by the UHC). Any charges in excess of the limit and co-payments are covered by patients on an out-of-pocket basis.

As a result, in 2015 our healthcare services revenue was sourced as follows:

- 76% from the government (up from 56% a year ago, when the UHC implementation was in progress prior to full implementation in September 2014)
- 18% was sourced from out-of-pocket payments (down from 22% a year ago) and
- 6% was sourced from private medical insurance companies (down from 22% a year ago)

We expect the share of out-of-pocket payments and revenue from private medical insurance companies to increase over the next few years, as a result of the rollout of our ambulatory expansion strategy, as the larger proportion of elective out-patient services are still financed by patients themselves.

High double-digit growth in our healthcare service revenues was partially offset by the anticipated decline in medical insurance revenues. As government spending on healthcare was consolidated under the UHC, the revenue from our medical insurance business decreased to GEL 55.3 million. Medical insurance business revenue from the state declined steadily in 2014 and reduced to zero by the end of 2015. Our private medical insurance, however, has shown resilience and revenue from private medical insurance products grew by 32.0%, with approximately 234,000 people holding our medical insurance policies as at 31 December 2015. This growth reflected improved pricing and the introduction of differentiated products, as well as more targeted sales efforts and an increase in our sales-force which has led to an increase in the number of people insured. Within the changed private insurance landscape that resulted from the introduction of the UHC, our medical insurance business has strengthened its market share and now accounts for 38.4% of the total medical insurance sector of Georgia based on net insurance premium revenue as of 30 September 2015, up from 36.0% as of 31 December 2014.

Despite the decline in the relative size of our medical insurance business due to the introduction of the UHC, our medical insurance business plays a crucial role in our business model. Our medical insurance business is an important feeder for our medical services business, and that role will, we believe, be significantly enhanced in the future as we roll-out our ambulatory growth strategy. In 2015, our medical insurance claims expense was GEL 46.1 million, of which GEL 24.1 million (52% of total) was inpatient, GEL 12.2 million (27% of total) was outpatient and GEL 9.8 million (21% of total) was drugs. Only GEL 7.4 million, or 16.1% of total of our medical insurance claims were retained within GHG. The feeder role of our medical insurance business is particularly important for our ambulatory services. In 2015, GEL 3.5 million, or 33.7% of our ambulatory medical insurance claims were retained within GHG. With our

Cost of services and Gross profit

(GEL thousands, unless otherwise noted)	FY15	FY14	Change, y-o-y
Cost of healthcare services	**(107,291)**	**(83,298)**	**28.8%**
Cost of salaries and other employee benefits	(68,014)	(53,949)	26.1%
Cost of materials and supplies	(29,097)	(18,139)	60.4%
Cost of medical service providers	(2,423)	(4,517)	–46.3%
Cost of utilities and other	(7,757)	(6,693)	15.9%
Net insurance claims incurred	**(46,076)**	**(61,233)**	**–24.8%**
Eliminations	7,431	18,465	–59.8%
Total cost of services	**(145,936)**	**(126,066)**	**15.8%**
Gross profit	**93,129**	**70,266**	**32.5%**
Gross margin	38.4%	35.5%	
Cost of healthcare services as % of revenue			
Direct salary rate	34.9%	36.7%	
Materials rate	14.9%	12.3%	

Business review continued

Operating expenses and EBITDA

(GEL thousands, unless otherwise noted)	FY15	FY14	Change, y-o-y
Operating expenses of healthcare services business	**(30,607)**	**(26,260)**	**16.6%**
Salaries and other employee benefits	(23,075)	(16,055)	43.7%
General and administrative expenses	(7,860)	(6,933)	13.4%
Impairment of healthcare services, insurance premiums and other receivables	(3,140)	(4,209)	–25.4%
Other operating income	3,468	937	270.2%
Operating expenses of medical insurance business	**(6,567)**	**(7,455)**	**–11.9%**
Eliminations	184	311	–40.7%
Total operating expenses	**(36,990)**	**(33,404)**	**10.7%**
EBITDA	**56,139**	**36,862**	**52.3%**
Of which:			
EBITDA of healthcare services business	53,526	35,791	49.6%
EBITDA margin of healthcare service business	27.4%	24.3%	

recently launched ambulatory clinics and the ambitious ambulatory expansion strategy, the retention rate should improve in the future on a larger base, providing a significant revenue boost. In addition, following the expansion of our healthcare services business in referral and specialty hospitals in the capital, 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 received, access to a one-stop-shop style of service for ambulatory services and ease of claim reimbursement procedures.

Our margins improved 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 recently acquired healthcare facilities, with a 15.8% increase in total cost of service (COGS) lagging behind 22.5% growth in revenues.

More than half of the growth in COGS in 2015 came from an increase in payroll costs, primarily attributed to recent acquisitions, but growth was also driven organically. Since 31 December 2014, our headcount has increased by 1,659 employees, of which 1,165 were added through acquisitions completed in 2015, and reached 9,709 full-time employees as of 31 December 2015. As at 31 December 2015, we employed 2,705 doctors and 2,738 nurses, up from 2,394 doctors and 2,264 nurses a year ago. The disproportionate increase in the cost of materials and supplies is due to the impact of recent hospital acquisitions. We acquired DEKA and HTMC this year, as well as Traumatology and Sunstone in the second half of 2014. Both, HTMC and Traumatology have higher levels of cost of materials and supplies versus revenue, compared to our other hospitals, as both are large referral hospitals with varied service mixes.

Management follows the relationship between healthcare services business costs and revenues closely. Our direct salary rate (expense on direct salaries as a percentage of gross revenue) improved to 34.9%, from 36.7% a year ago, reflecting the integration efforts of acquisitions completed in 2014 and 2015. The materials rate (expense on direct materials as a percentage of gross revenue) was 14.9%, up from 12.3% a year ago, reflecting the addition of referral hospitals, which, due to the service mix, have a higher rate of expenditure on materials compared to the average of our hospitals.

Medical insurance claims grew due to GEL devaluation against US$ drove the retail prices of drugs up, which represent c.20% of our medical insurance claims. To address the second driver, we have adjusted the pricing and underwriting criteria (copayments) of our medical insurance products and it is expected to affect the loss ratio gradually, with the renewal of existing contracts or new sales at adjusted prices. Additionally, we are renegotiating prices for drugs with pharmaceutical distributors, leveraging our combined scale from claims on drugs in our medical insurance business and purchases of drugs and other medical disposables for our healthcare services business.

The increase in gross profit to GEL 93.1 million in 2015 was supported by the 22.5% growth in revenues, which outpaced the 15.8% growth in cost of services during the period. This drove an increase in gross margin (defined as gross profit divided by revenue) to 38.4%.

As our business grew significantly in 2015, we were particularly focused on realising synergies from recent acquisitions, which is reflected in operating expenses that were well contained in 2015. Primarily driven by recent acquisitions, operating expenses increased 10.7% y-o-y, with salaries and other employee benefits in our healthcare services business constituting a major driver of this growth, which results primarily from increased headcount and governance costs. Notably, administrative salary rate of our healthcare services business (administrative salary expenses as a percentage of gross revenue) was 11.8%, up from 10.9% a year ago and the SG&A rate (selling, general and administrative expenses as a percentage of gross revenue) improved to 4.0%, down from 4.7% in 2014.

With revenue growth outpacing this increase in expenses, our operating leverage was positive at 14.8 percentage points. Strong operating leverage was mainly driven by our healthcare services business which posted a positive operating leverage at 10.3 percentage points y-o-y. This resulted from the realisation of post-acquisition synergies, as well as the increasing benefits of the scale of our business. These improvements more than offset the costs of the new governance structure put in place since the end of 2014 in preparation for the IPO in 2015.

Furthermore, post-acquisition synergies in our healthcare services business are not yet fully reflected in the current financial results, as the integration process for a number of recent acquisitions is still ongoing. We are continuing our work on realising synergies, mainly administrative inefficiencies in recently acquired hospitals, as benchmarked against our existing healthcare facilities in the areas of procurement, process standardisation and payroll.

The business delivered a significant increase in our EBITDA to GEL 56.1 million in 2015, driven by healthcare services EBITDA, which reached GEL 53.5 million. The EBITDA margin for our healthcare services increased by more than three percentage points to 27.4% in 2015 toward our longer-term target of at least 30%. The improvement is mostly a result of removing inefficiencies brought in through the acquisition of new hospitals in 2014 and 2015 as well as the increased scale of the business, more than offsetting the costs of the new governance structure, as mentioned above.

Depreciation; net-interest income and profit for the period

(GEL thousands, unless otherwise noted)	FY15	FY14	Change, y-o-y
Depreciation and amortisation	(12,665)	(7,630)	66.0%
Net interest income (expense)	(20,281)	(12,806)	58.4%
Net gains/(losses) from foreign currencies	2,097	(2,494)	NMF
Net non-recurring income/(expense)	(1,682)	578	NMF
Profit before income tax expense	**23,608**	**14,510**	**62.7%**
Income tax (expense)/benefit	9	(1,246)	NMF
Profit for the period	**23,617**	**13,264**	**78.1%**
Of which:			
Profit from healthcare services business	21,860	12,268	78.2%
Profit from medical insurance business	1,757	996	76.4%
Attributable to:			
– shareholders of the Company	19,651	10,207	92.5%
– non-controlling interests	3,966	3,057	29.7%

We expect continued improvement in our EBIDTA margin as a result of:

- The ongoing integration of recently acquired healthcare facilities, including the centralisation of some back-office functions;
- The increased contribution of ambulatory clinics to our revenues, which have an EBITDA margin of over 30% and currently represent only 3% of our healthcare services revenue (our target is to increase ambulatory clinic revenue contribution to 15% in 2018);
- Recently launched services, and department expansions, described under "Update on operating performance, project and development highlights" below, picking-up and reaching annual run-rates.

The increase in 2015 of depreciation and amortisation costs to GEL 12.7 million was primarily driven by the completion of acquisitions during the past year, but also the completion of large development projects in 2015, which are described below under "Update on operating performance, project and development highlights".

The rise in net interest expense to GEL 20.3 million resulted from the higher level of borrowings throughout the year, which were incurred for financing acquisitions and growth projects, as well as an increase in the reference rate for local currency borrowings – a primary currency for GHG borrowings. In-line with our previously announced intention to deleverage the Group, the majority of the Group's borrowings was repaid in advance at year end 2015/beginning of 2016 from IPO proceeds. Accordingly, net interest expense is expected to decrease significantly in 2016. Borrowings amounted to GEL 152.8 million as at 31 December 2015, a 6.2% reduction compared to GEL 162.9 million a year ago. Following the advanced repayment of our loans from local banks in the beginning of 2016, the borrowings further decreased to GEL 105.6 million as at 31 January 2016, which also includes GEL 35.5 million of US Dollar denominated bonds outstanding. Overall, we have repaid a total of GEL 104.4 million. As a result of prepayments, our net debt to EBITDA was zero as of the end of 2015, due to cash and bank deposits exceeded the borrowings. In connection with the advance repayments to local banks, we have secured committed credit lines in local currency which will be drawn as needed for future capex spending. On the back of this exercise in reducing interest expense, we have freed up cash flow to finance development capex, which should result in lower leverage levels than we initially anticipated.

The reversal in our net gains from foreign currencies from a loss in 2014 to a GEL 2.1 million gain in 2015 was primarily a result of GHG's efforts during the end of 2014 to decrease foreign currency risk exposure on foreign currency borrowings, compared to previous reporting periods. The Company has converted most of its borrowings into local currency and the rest was hedged so the short position was closed.

As a result, our profit for the period rose to GEL 23.6 million, up 78.1% on 2014. The adjusted profit was GEL 28.0 million, which reflects in a currency exchange adjustment relating to the proceeds received from the capital raise and the positive impact of utilising some of the proceeds to reduce the Group's existing indebtedness by GEL 104.4 million to GEL 105.6 million as at 31 January 2016.

Balance sheet highlights

Our balance sheet increased substantially over the last year with assets growing to GEL 758.3 million as of 31 December 2015. The growth of total assets by GEL 349.0 million y-o-y was largely driven by the 69.1% (GEL 181.8 million) increase in GHG's property and equipment, reflecting the acquisition of new hospitals during 2015. Cash and bank deposits have also significantly increased, reflecting the receipt of the funds raised in the IPO during the end of 2015. The increase in shareholders' equity largely reflects the primary placement of equity shares in the IPO.

Selected balance sheet items

(GEL thousands, unless otherwise noted)	Dec-15	Dec-14	Change, y-o-y
Total assets, of which:	**758,280**	**409,277**	**85.3%**
Cash and bank deposits	157,398	46,738	236.8%
Property and equipment	444,718	262,938	69.1%
Total liabilities, of which:	**283,299**	**236,966**	**19.6%**
Borrowings	152,762	162,860	–6.2%
Total shareholders' equity	**474,981**	**172,311**	**175.7%**

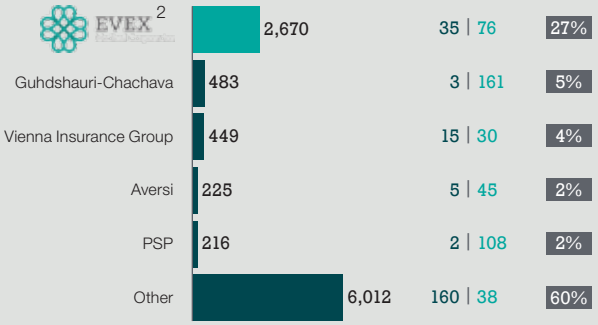
Business review continued

Clear leader in a fragmented market

GEORGIA HEALTHCARE GROUP

Healthcare services (Hospitals)[1]

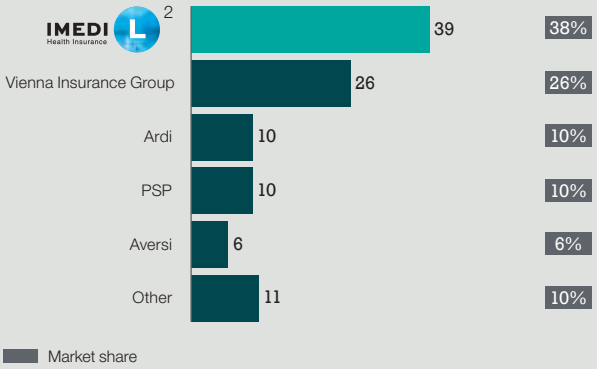
Number of beds (number of hospitals)



Notes:
1 Market share by number of beds. Source: NCDC, data as of December 2014, updated by company to include changes before 31 December 2015
2 Evex – healthcare service brand of GHG

Medical Insurance[1]

Gross premium revenue (GEL million)



Notes:
1 Market share by gross revenue; Insurance State Supervision Service Agency of Georgia as of 30 September 2015
2 Imedi L – medical insurance brand of GHG

2015 operating highlights

We operated 2,670 hospital beds in 45 facilities by the end of 2015, up from 2,140 beds in 39 facilities a year ago, an increase of 530 beds resulting in a year-end market share of 26.6%. The increase in the number of hospital beds was primarily in Tbilisi, the capital city of Georgia, where revenue per bed is significantly higher compared to other regions. Our footprint increased in Tbilisi, where our market share in beds grew from 14.1% as of 31 December 2014 to 24.0% as of 31 December 2015. It reflects the implementation of GHG's expansion strategy that resulted in acquisition of nine hospitals with the total of 1,380 beds since the end of 2013.

In August 2015 we acquired a 50% equity interest in and control of GNCo. GNCo is a holding company that owns 100% of HTMC Hospital, a major and well-established 450 bed referral hospital in Tbilisi, which 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. HTMC acquisition increased our market share by beds by 4.5%, from 22.1% up to 26.6%.

On June 30, 2015 we acquired 95% of the shares of LLC Deka – a healthcare company operating in Georgia. After completion of the full renovation in May of 2017 it will run at 310 bed capacity. Alongside with Deka, we started renovating Sunstone hospital, acquired in September of 2014 which will run at a 332 bed capacity. Renovating both hospitals will add an additional capacity of c.500. Completion of the full renovation of Sunstone is planned for April 2017, with gradual opening of departments in 2016 and 2017 as well. Both projects will increase our national and Tbilisi market share in beds up to c.30%.

As a result, our market share by number of beds will approach our target of 1/3. However, we have significant room to catch up in terms of market share by hospital revenue, which currently stands at c.18%.

We accelerated the launch of ambulatory clinics in the second half of 2015, in line with our strategic goal to open 10-12 ambulatory clusters, with 20-30 ambulatory clinics within 2-3 years. Currently we are predominantly a hospital provider, with under 3% of our healthcare services revenue derived from ambulatory clinics. We aim to tap the highly fragmented and under-penetrated outpatient segment that represents c.40% of national spending on healthcare services (excluding pharmaceuticals), where no single player has more than 3% of the market. There is currently a very low utilisation level of outpatient services in the country (Georgia has the lowest average number of outpatient encounters per capita in the region – Georgia: 3.5, CIS: 8.9, EU: 7.7) and this, combined with higher margins make this sector even more attractive.

We organise our ambulatory clinics in geographic clusters. Each ambulatory cluster consists of one District Ambulatory Clinic (a large multi-profile ambulatory clinic that provides complex outpatient services; total area of 1800-2500 sq/m) and several (3-5) Express Ambulatory Clinics (smaller ambulatory clinics providing basic outpatient services; total area of 120-200 sq/m) that refer patients to District Ambulatory Clinics. Development of ambulatory cluster requires approximately US$0.8 million capex, with a payback period of up to three years. Ambulatory clinics cater to all age groups and provide a wide range of outpatient services, including general practitioner and specialist physician consultations, imaging and functional diagnostics, as well as clinical, biochemical and serological laboratory tests. Currently we operate a total of four ambulatory clusters with a total of ten ambulatory clinics, of which three clusters and four ambulatory clinics were launched in 2015. We aim to launch additional at least six ambulatory clusters during 2016.

Notable ambulatory developments in 2015:

- In September 2015, we launched our largest multi-profile ambulatory clinic in the Tbilisi district of Gldani, that covers a population of c.245,000. The clinic will serve as a referral point for the Gldani district ambulatory cluster. In December 2015, we enhanced the Gldani neighbourhood cluster by adding an Express Clinic.
- In November-December 2015, we launched two new ambulatory clusters, one in Tbilisi, and one in Kutaisi, the second largest city in Georgia. The Tbilisi ambulatory cluster is located in the Varketili neighbourhood, which covers a population of c.300,000 and the Kutaisi ambulatory cluster covers a population of c.200,000.

GHC setting new standard among competition in ambulatory business

Competition

Building

Mitskevich polyclinic, Tbilisi, September 2015

Reception

Joen clinic, Tbilisi, September 2015

Doctor's office

9th polyclinic, Tbilisi, September 2015

GHG ambulatory clinics

Building

Express ambulatory clinic, Tbilisi, December 2014

Reception

Express ambulatory clinic, Tbilisi, December 2014

Doctor's office

Express ambulatory clinic, Tbilisi, December 2014

Source: Company photos

We invest in medical technology, on the back of renovated infrastructure, enhancing our service mix and introducing new services to cater to unfulfilled demand, as indicated by low incidence levels that lag far behind peer benchmarks.

Despite our heavy commitment to acquisitions in 2015, we did not neglect investment in organic development. We define development capex as additions to GHG's property, plant and equipment, excluding acquisitions. During 2015, we spent a total of GEL 71.2 million on capital expenditures, an increase of 75.1% y-o-y. Of this, maintenance capex was GEL 7.2 million, up 72.2% y-o-y, which represented 3.7% of total healthcare business revenues, the same level as in 2014. We also spent GEL 63.9 million on development projects, which included the launch of Kutaisi Oncology Centre (capex of GEL 12.0 million), the development of critical care services at Sunstone hospital (capex of GEL 2.0 million), the renovation of our hospitals in Samtskhe region (capex of GEL 7.9 million), which become fully operational in February 2016, launch of paediatric cardiology department in Tbilisi (capex of GEL 3.7 million) and the roll-out of the ambulatory clinics (capex of GEL 7.9 million).

In November 2015, we launched a paediatric cardiology department at the children's referral hospital in Tbilisi, which is now the second healthcare facility in Georgia to provide full scale cardiac services, including cardiac surgery for children in Georgia. During the first month of operations, we performed ten surgeries.

We expanded service offerings in a number of our hospitals:

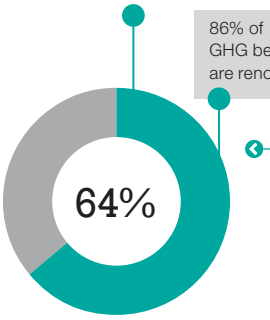
- launched ophthalmology, emergency care, cardiology departments and expanded the imaging diagnostics department in Zugdidi referral hospital, west Georgia;
- launched an emergency department and neurosurgery unit at Traumatology referral hospital in Tbilisi;
- launched an emergency department and expanded an imaging department at Telavi referral hospital, east Georgia;
- expanded the intensive care department at Batumi referral hospital, west Georgia;
- launched a haemodialysis department at Kutaisi Referral Hospital, west Georgia;
- launched a cardio-intensive care unit at Kutaisi referral hospital, west Georgia; and
- launched the obstetrics and gynaecology department at Batumi referral hospital, west Georgia.

Investing in renovation and service mix expansion

Soviet-era legacy

64% of beds are renovated in Georgia[1]

86% of GHG beds are renovated[2]



Renovated

Notes:
1 NCDC, data as of 2014
2 GHG internal reporting

Business review continued

In spite of these investments, there are still significant shortages in the supply of equipment and service gaps, which leaves significant room for further growth. We expect to launch a number of such services in the beginning of 2016, including adding and expanding neurosurgery, cardiosurgery, and intensive care units in our regional hospitals; and IVF (In Vitro Fertilisation) and paediatric kidney transplantation.

In May 2015 we launched Western Georgia's largest and most well-equipped Oncology Centre in Kutaisi (capex of GEL 12.0 million). The centre offers cancer treatment of Western Georgia's population where radiotherapy and drug therapy departments work under supervision of leading Georgian oncologists from US and Europe.

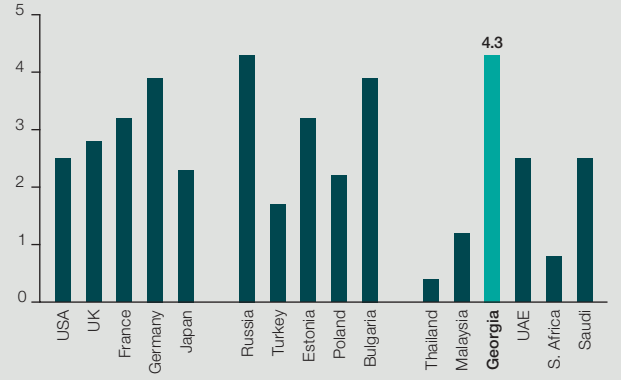
We initiated and facilitated the opening of a mutual Nurse College at David Tvildiani Medical University, a leading medical institution in Georgia. The curriculum was developed in line with standards set by the National Council of State Boards of Nursing in the US. More than 200 nurses are expected to graduate from the college every year. We will be funding the education of the top performers in the class. This cooperation is critical for us to address the country's shortage of nurses and we expect to recruit our nurses from this newly opened college.

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, anaesthesiology and intensive care, laboratory medicine, obstetrics and gynaecology, children's cardio and rheumatology. These programmes are particularly important to source specialists in the fields where we have a shortage of doctors. Since the launch of the programme in December 2015, we have received 120 applications from prospective residents. We selected 43 candidates who started the programme in the first quarter of 2016.

In September 2015, experts from the Mayo Clinic conducted training for our staff in Paediatric Fundamental Critical Care Support (PFCCS) and Fundamental Critical Care Support (FCCS) – the two most critical fields in the country with supply gaps. In addition to training physicians, the training also covered developing trainers to provide further training and continuous development for our doctors. Our collaboration with Mayo Clinic in respect of training and quality development has been highly productive. This has been operational since 2013 and we will continue this partnership to improve our staff qualifications and operations.

Physician overcapacity and nurse shortage yet to be addressed

Number of physicans per 1,000 people



Source: World Health Organisation and World Bank 2013 Data

Directors' Governance Statement

Irakli Gilauri
Chairman

David Morrison
Senior Independent Non-Executive Director

Chairman's Letter

Dear Shareholders,

We are pleased to present the first Governance Report in respect of our short time as a listed company. We appointed all of our Directors prior to listing to give them time to understand the business and the market in which we operate and in order for us to begin to benefit from their advice and assistance. During this period, the Directors made many site visits and all received corporate governance training from our external legal advisors. We are pleased to report now on some key highlights of the robust structure that we have established:

- a complete committee structure with terms of reference that are compliant with the UK Corporate Governance Code, with each committee composed to ensure that we have the correct skill sets for it to operate effectively;
- a Board with a proven track record in business with both sector and country-specific knowledge consisting of one Executive Director, seven Independent Non-Executive Directors and one Non-Executive Director deemed not to be independent; and
- a complete suite of governance policies.

Our flat management structure and high level of involvement from management ensures that good governance practices stretch far beyond the boardroom and are continually implemented in the successful delivery of the Group's strategic priorities.

The Board recognises the importance of, and is committed to, maintaining the highest standards of corporate governance. We have been complying with the obligations applicable under the UK Listing Rules and Disclosure and Transparency Rules as a subsidiary of a listed parent company 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.

While the Board is committed to high standards of corporate governance it has not been possible nor necessarily relevant for the Company to comply with all of the provisions of the UK Corporate Governance Code during the period. We intend to progress towards full compliance wherever possible, but believe that the key governance procedures to deliver a robust structure are already in place.

We are confident that both the Board and management will support the growth strategy of the Group and strengthen the existing governance structure that we have in place. We look forward to reporting to you next year as to how our governance arrangements have continued to develop.

Irakli Gilauri
Chairman
7 April 2016

David Morrison
Senior Independent Non-Executive Director
7 April 2016

Directors' Governance Statement continued

Compliance statement

GHG adopted the UK Corporate Governance Code at the point of listing on the London Stock Exchange. Since that date, the Company has applied the principles of the UK Corporate Governance Code except for the following:

Code provision	Code wording	Explanation of non-compliance
A.3.1	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.
B.6.1	The Board should state in the Annual Report how performance evaluation of the Board, its committees and its individual Directors has been conducted.	The Board has not carried out an annual evaluation of its own performance or that of the Chairman. In the short period of time between listing and the year end, the Board focused on matters relating to the IPO and it was considered too early for the Board to undertake an evaluation of its own performance. It is intended that such a review will take place in the coming year.
B.6.3	The Non-Executive Directors, led by the Senior Independent Director, should be responsible for, the performance evaluation of the Chairman, taking into account the views of Executive Directors.	
B.7.2	The Chairman should confirm to shareholders when proposing a Non-Executive Director for election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.	

The role of the Board

The Board is collectively responsible for the long-term success of the Company for its shareholders, ensuring that it maintains the highest standards of corporate governance. It sets the strategic direction and governance structure for the Company that will assist with achieving its long-term success. In addition, the Board oversees areas such as financial policy, internal control and risk management and is responsible for ensuring the overall effectiveness of systems in place.

Prior to listing, the Board adopted a formal schedule of matters reserved for its approval, which is reviewed regularly. A summary of the matters reserved for the Board is set out on page 69.

The Board has delegated other specific duties to its principal committees and the Board has full visibility on matters discussed at Board committee level. In 2015, the Board had four principal committees being the Audit Committee, Remuneration Committee, Clinical Quality and Safety Committee and the Nomination Committee. Each committee has agreed terms of reference which can be found on the Group's website www.ghg.com.ge.

2015 Committee Membership

Name of Director	Audit Committee	Clinical Quality and Safety Committee	Nomination Committee	Remuneration Committee
Irakli Gilauri	–	–	Member	Member
Nikoloz Gamkrelidze	–	–	–	–
David Morrison	Chairman	Member	Member	–
Neil Janin	–	–	Chairman	Chairman
Allan Hirst	Member	–	–	–
Ingeborg Oie	–	Member	–	Member
Tim Elsigood	Member	Member	–	Member
Mike Anderson	–	Chairman	Member	–
Jacques Richier	Member	–	Member	–

Matters reserved for the Board

Key matters reserved for the Board include the approval or oversight of:

- the Group's long-term objectives and commercial and investment strategy;
- the annual operating and capital expenditure budgets and any material changes to them;
- any extension of the Group's activities into new business or geographic areas;
- any decision to cease to operate all or any material part of the Group's business;
- any takeover offer for another company which is subject to the City Code on Takeovers and Mergers;
- the half-yearly report, interim management statements and any preliminary announcement of final results;
- the dividend policy;
- any significant changes in accounting policies or practices (following recommendations by the Audit Committee);
- at least once a year, each of the following policies to ensure the Company is operating at maximum effectiveness: Group Anti-Bribery and Corruption Policy, Inside Information Disclosure Policy, Code of Conduct, Health and Safety Policy, Internal Audit Policy, Policy on the Provision of Non-Audit Services by the External Auditor, Related Party Transaction Policy, Share Dealing Code, Whistleblowing Policy and any other policies the Board deem appropriate;
- the maintenance of a sound system of internal control and risk management;
- major capital projects;
- any transaction with the BGEO Group and/or any related party transactions;
- any changes to the structure, size and composition of the Board following recommendations from the Nomination Committee;
- the adequate succession planning for the Board and senior management;
- determining the remuneration policy for the Directors, Group Company Secretary and other senior executives, following recommendations from the Remuneration Committee; and
- undertaking a formal and rigorous review annually of its own performance, that of its committees and individual Directors.

Division of responsibilities

The Board has agreed a clear division of responsibilities between the Chairman, Chief Executive Officer and the Senior Independent Non-Executive Director.

Roles and responsibilities

Chairman – Irakli Gilauri

As Chairman, Mr Gilauri is primarily responsible for leadership of the Board, setting its agenda and monitoring its effectiveness.

The other key responsibilities of the Chairman are:

- ensuring that Board agendas take full account of the important issues facing the Group and the concerns of all Board members;
- ensuring that the performance of the Board as a whole, its committees and individual Directors is formally and rigorously evaluated at least once a year;
- providing support, advice and a sounding board for the Chief Executive Officer while respecting executive responsibility; and
- ensuring that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives.

Chief Executive Officer – Nikoloz Gamkrelidze

Mr Gamkrelidze is responsible for the day-to-day running of the Group, with authority delegated by the Board, carrying out the agreed strategy and implementing specific Board decisions.

The other key responsibilities of the Chief Executive Officer are:

- proposing, developing and supervising the Group's strategy and overall commercial objectives, in close consultation with the Chairman and the Board;
- together with the executive team, for implementing the decisions of the Board and its committees;
- identifying and executing new business opportunities outside the current core activities, in line with strategic plans;
- ensuring that the Chairman is alerted to forthcoming complex, contentious or sensitive issues affecting the Group of which he might not otherwise be aware; and
- ensuring that the executive team gives appropriate priority to providing reports to the Board which contain accurate, timely and clear information.

Senior Independent Non-Executive Director – David Morrison

The UK Corporate Governance Code recommends that the Board of a UK listed company should appoint one of its Independent Non-Executive Directors as the Senior Independent Non-Executive Director. Given his experience at BGEO Group PLC and his background, the Board has appointed David Morrison to fill this role.

The key roles and responsibilities of the Senior Independent Non-Executive Director include:

- being available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer has failed to resolve, or for which such contact would be inappropriate; and
- meeting with the other Non-Executive Directors at least once a year to appraise the Chairman's performance and on such other occasions as are deemed appropriate.

This separation of responsibilities between the Chairman, Chief Executive Officer and the Senior Independent Non-Executive Director, together with the schedule of matters reserved for the Board, ensures that no one individual has unfettered powers of decision making.

Non-Executive Directors and independence

Our principal shareholder, BGEO Group PLC, owned 96.24% prior to listing and now holds 65.03% of the Company's issued share capital. Therefore, there is a relationship agreement in place with the BGEO Group. The principal purpose of the relationship agreement is to allow the Company to operate its business independently from the BGEO Group and to ensure that transactions and relationships between the Company and its principal shareholder are on arm's length terms and on a normal commercial basis. The relationship agreement that the Company has entered into with the BGEO Group entitles the principal shareholder to appoint one person to be a Non-Executive Director of the Company for so long as it holds at least 20% of the voting share capital of the Company.

The UK Corporate Governance Code states that the Board should determine whether Non-Executive Directors are 'independent', meaning whether they are independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board has therefore considered the independence of the Company's Non-Executive Directors (particularly in light of the fact that some of them serve on the Board of BGEO Group PLC and in terms of the factors described in the UK Corporate Governance Code) and has determined as mentioned previously that all Non-Executive Directors are independent except for Irakli Gilauri.

Directors' Governance Statement continued

Irakli Gilauri is the Company's Chairman and at the time of appointment also served as the Chief Executive Officer of the Company's principal shareholder, BGEO Group PLC. 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 UK Corporate Governance Code states that the Board should explain its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances that may appear relevant to its determination. The Board considers that David Morrison and Neil Janin are independent for the following reasons:

David Morrison also serves on the board of BGEO Group PLC (together with Irakli Gilauri and Neil Janin) and is the Senior Independent Non-Executive Director, Chairman of the Audit Committee and member of several other committees of BGEO Group PLC. His background as a corporate lawyer, advising multiple clients, gives him a particular sensitivity to conflicts and independence questions (in his career as a lawyer, his clients included many publicly held companies, often in competing businesses and his expertise included governance). The Board has therefore determined that Mr Morrison is independent in character and judgement.

Neil Janin also serves on the board of BGEO Group PLC (together with David Morrison and Irakli Gilauri) as its Independent Non-Executive Chairman. Mr Janin was independent on his appointment to the board of BGEO Group PLC and, through his experience of advising multiple clients throughout his career as a consultant, is familiar with conflicts and independence issues. The Board has therefore determined that Mr Janin is independent in character and judgement.

Board meetings

The Company listed on 12 November 2015 and therefore in the short period of time between listing and the year end, the Company held one Board meeting, at which all Directors were present. From the year end and up to the date of publication of this Annual Report, the Board held four further Board meetings.

Appointment and tenure

On appointment all the Non-Executive Directors received a letter of appointment that set out the time commitment expected and the fees payable. The letters of appointment are available for inspection at the Company's registered office during normal business hours.

Each Director is subject to election by shareholders at the Annual General Meeting of the Company intended to be held on 26 May 2016.

Commitment

Each Non-Executive Director is expected to commit approximately 25 to 35 days per year to the role. An additional time commitment is expected to fulfil their role as either a committee chairman or member. All Directors are expected to attend each Board meeting and each committee meeting for which they are a member. If a Director is unable to attend a meeting due to exceptional circumstances, he or she still receives the papers in advance of the meeting and has the opportunity to discuss with the relevant chairman or the Company Secretary any matters he or she wishes to raise and to follow up on the decisions taken at the meeting. The Chairman, Chief Executive Officer and Company Secretary are always available to discuss issues relating to meetings or other matters with the Directors. Reasons for non-attendance are generally prior business commitments.

The Board believes that all Directors are effective, committed to their roles and have sufficient time available to perform their duties. Therefore, all Directors will be putting themselves forward for election at the Company's first Annual General Meeting which is intended to be held on Thursday 26 May 2016.

During 2014, the Financial Conduct Authority published amendments to the UK Listing Rules which included changes affecting premium listed companies with a controlling shareholder. This means that the Independent Non-Executive Directors of the Company must be elected by a majority of the votes cast by the independent shareholders (which excludes the controlling shareholder) of the Company as well as by a majority of the votes cast by all shareholders.

Development

Prior to the IPO, all Directors received in-depth training and guidance as to their duties, responsibilities and liabilities as a Director of a public limited company. In addition, the Directors visited some of the Group's key sites and received updates from senior management. To ensure that the Board as a whole remains fully informed of the views of shareholders, the Board receives regular updates on shareholder sentiment. All Directors can attend shareholder meetings and analyst presentations, and shareholders may meet informally with the Directors at the Annual General Meeting.

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.

External appointments

Any external appointment or other significant commitment of the 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.

Directors' conflicts of interests

The Companies Act 2006 requires Directors to avoid situations in which they have or can have a direct or indirect interest that conflicts or may conflict with the interests of the Company. This duty is in addition to the existing duty that a Director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Company's Articles of Association include provisions giving the Directors authority to approve such situations. There is no breach of duty if the relevant situation has been authorised in advance.

The Company Secretary minutes the consideration of any conflict or potential conflict of interest and authorisations granted by the Board, and maintains a register of conflicts of interest. The Directors are required to inform the Company Secretary on an ongoing basis of any new, actual or potential conflict of interest that may arise, or if there are any changes in circumstances which may affect an authorisation previously given. No conflicts of interest have been disclosed up to the date of this Annual Report.

Board evaluation

Due to the short period of time between listing and the year end it has not been possible, nor necessarily desirable, to carry out a formal evaluation of the Board, its committees and the individual Directors. The Board believes that a meaningful evaluation can only take place after the Board and its committees have been working together for some time. The Board intends to carry out a Board and committee evaluation in 2016.

Dialogue with shareholders

The Board recognises the importance of good communication with all of its shareholders and maintains an active dialogue with its key financial audiences, including institutional shareholders. During the IPO process, management were in regular contact with institutional investors and held a number of investor roadshows. The Chief Executive Officer and Chairman are closely involved in investor relations and the Head of Investor Relations has day-to-day responsibility for such matters. The Board are provided with shareholder feedback at Board meetings. The Chief Executive Officer, Chairman and Senior Independent Non-Executive Director are available to discuss the concerns of shareholders at any point during the year.

All announcements issued to the London Stock Exchange are available on the Group's website www.ghg.com.ge.

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 2016 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,

UK Bribery Act 2010 (the 'Bribery Act')

The Bribery Act established criminal offences for bribing another person, receiving a bribe, bribing foreign officials and failure by commercial organisations to prevent bribery. In response to the legislation, the Group has implemented an anti-bribery and corruption policy. The Board firmly stands against bribery and corruption and attaches the utmost importance to the policy and has introduced an anonymous whistleblowing helpline.

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 97 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.

Board Biographies




1. Irakli Gilauri | 2. Nikoloz Gamkrelidze | 3. David Morrison | 4. Neil Janin

1. Irakli Gilauri

Non-Executive Chairman

Irakli Gilauri was appointed Non-Executive Chairman on 28 August 2015. 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. Mr Gilauri joined Bank of Georgia as Chief Financial Officer in 2004. He was appointed as Chief Executive Officer of JSC BGEO Group in August 2015. 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. Nikoloz Gamkrelidze

Chief Executive Officer

Nikoloz Gamkrelidze was appointed as Chief Executive Officer on 28 August 2015.

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. 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. Mr Morrison also serves as Chairman of the Audit Committee and a member of both the Nomination Committee and the Clinical Quality and Safety Committee.

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. In 2015, Mr Morrison helped to create a new conservation trust fund for the Balkans, known as Prespa Ohrid Nature Trust (PONT). He now serves as PONT's CEO on an interim basis.

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. Mr Janin serves as Chairman of both the Nomination Committee and Remuneration Committee.

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 directors 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.

Education:

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





5. Allan Hirst | 6. Ingeborg Oie | 7. Tim Elsigood | 8. Mike Anderson | 9. Jacques Richier

5. Allan Hirst

Independent Non-Executive Director

Allan Hirst was appointed as an Independent Non-Executive Director on 4 September 2015. Mr Hirst serves 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.

6. Ingeborg Oie

Independent Non-Executive Director

Ingeborg Oie was appointed as an Independent Non-Executive Director on 4 September 2015. 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.

7. Tim Elsigood

Independent Non-Executive Director

Tim Elsigood was appointed as an Independent Non-Executive Director on 4 September 2015. Mr Elsigood serves as a member of the Audit Committee, Remuneration Committee and 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 United Kingdom. He then became senior vice president of business development in Capio AB based in Sweden. Mr Elsigood has also served as the UK Head of Alliance Medical Ltd, the largest medical imaging company in Europe.

Education:

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

8. Mike Anderson

Independent Non-Executive Director

Mike Anderson was appointed as an Independent Non-Executive Director on 4 September 2015. Mr 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. He is now 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.

9. Jacques Richier

Independent Non-Executive Director

Jacques Richier was appointed as an Independent Non-Executive Director on 4 September 2015. 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.

Senior Management Biographies






1. David Vakhtangishvili | 2. Giorgi Mindiashvili | 3. George Arveladze | 4. Nino Koguashvili | 5. Ivane Bokeria | 6. Gregory Khurtsidze

1. David Vakhtangishvili

Deputy CEO, Finance

David Vakhtangishvili is the Group's Deputy CEO, Finance. Prior to joining the Group, Mr Vakhtangishvili was the Chief Financial Officer of Bank of Georgia from January 2007. He was in charge of Bank of Georgia group's accounting, reporting and analysis, budgeting, taxation, mergers and acquisitions due diligence, ERP implementation and certain regulatory aspects, both in Georgia and the United Kingdom. He was responsible for regulatory reporting, regulatory capital and liquidity management of the Bank, working capital assessment, UK CFC legislation and assisting the board of directors with finance-related matters. Mr Vakhtangishvili has extensive experience with initial public offerings, Eurobond offerings, cross-border transactions and financial management of foreign subsidiaries in different taxation and regulatory environments. 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 EY. Mr Vakhtangishvili has a BBA diploma issued by the Free University Business School (ESM).

2. Giorgi Mindiashvili

Deputy CEO, Commercial

Giorgi Mindiashvili is the Group's Deputy CEO, Commercial. 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.

3. George Arveladze

Deputy CEO, Ambulatory and Pharmaceutical Business

George Arveladze has been appointed as the Deputy CEO, Ambulatory and Pharmaceutical Business of the Group with effect from 16 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. 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.

4. Nino Koguashvili

CEO of Insurance Company Imedi L

Nino Koguashvili has been CEO of Insurance Company Imedi L since July 2014. Ms Koguashvili has 12 years of experience in insurance. From 2009 to 2014, Ms Koguashvili was the Deputy CEO (Retail & Marketing) of Insurance Company Aldagi and was responsible for the strategic management of retail sales, development of sales channels and marketing management, and from 2007 to 2009, she was the director of retail sales. From 2004 to 2007, she was head of the marketing and PR division of Insurance Company BCI. Prior to joining Insurance Company BCI, she worked in key positions at communication companies Neocom and Telenet. Ms Koguashvili graduated from Tbilisi State University's faculty of History of Diplomacy and International Relations in 2002. She holds a Masters of Business Administration from the Caucasus School of Business.

5. Ivane Bokeria

Deputy CEO, Clinical

Dr Bokeria was the Group's Deputy CEO, Clinical. In his medical career prior to joining the Group, Dr Bokeria had served as the Vice Rector and the Dean of the Faculty of Medicine at Ivane Javakhishvili Tbilisi State Medical University from 2005 to 2006 and from 2003 to 2005 respectively, as well as acting as the head of M. Iashvili Children's Central Hospital and Ivane Javakhishvili Tbilisi State University Clinic, and the director of the Tbilisi Centre of Neurorehabilitation and Paediatric Neurology from 1999. Dr Bokeria was a member of several international professional associations and vice president of the Georgian Paediatric Neurology and Neurosurgery Association. He was chairman and a member of the parliamentary committee of healthcare for two parliamentary convocations. Dr Bokeria held an international certificate in hospital management and provided consultancy services for Georgia's hospital sector reorientation process. In November 2015, Dr Bokeria sadly passed away after a short illness. He will be greatly missed by his colleagues.

6. Gregory Khurtsidze

Deputy CEO, Clinical

Gregory Khurtsidze was appointed as the Group's Deputy CEO, Clinical with effect from 1 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 Center of Internal Medicine at New Hospital in Tbilisi, Georgia. Before returning to Georgia two years ago, 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, WA and Huron Hospital, Cleveland, OH. Dr Khurtsidze completed his M.D. 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, US.





7. Irakli Gogia | 8. Nino Kortua | 9. Medea Chkhaidze | 10. Otar Lortkipanidze | 11. Manana Khurtsilava

7. Irakli Gogia

Deputy CEO, Operations

Irakli Gogia is the Group's Deputy CEO, Operations. Mr Gogia was appointed deputy chairman of the supervisory board of Evex Medical Corporation and Insurance Company Imedi L in July 2014. He has 10 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 EY and Deloitte & Touche. 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.

8. Nino Kortua

Director of the Legal Department

Nino Kortua is director of the Group's legal department. 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 Aldagi), 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.

9. Medea Chkhaidze

HR and Organisational Development Director

Medea Chkhaidze is the Group's HR and Organisational Development Director. Prior to this role, Mrs Chkhaidze was head of the HR division 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 their training and development unit. Between 2002 and 2007, she worked for the Georgian non-profit organisation, Foundation of the Development of Human Resources, as the leader of various projects and as the executive director of the same organisation during 2001 to 2007. Mrs Chkhaidze holds a Masters Degree in social psychology and conflict management from Javakhishvili Tbilisi State University.

10. Otar Lortkipanidze

IT Director

Otar Lortkipanidze is the Group's IT Director. He has over 10 years of experience in the IT field. 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 UBC International audit company. 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).

11. Manana Khurtsilava

Head of Internal Audit

Manana Khurtsilava is the Group's Head of Internal Audit. 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 Tbilisi State University.

Nomination Committee Report

Neil Janin
Chairman of the Nomination Committee

Chairman's Overview

I am pleased to present the first Nomination Committee report for the Group.

The Nomination Committee was established as part of the IPO process. One of my roles as Chairman of the Nomination Committee is to ensure that we have the appropriate balance of skills, knowledge and experience on the Board and in senior management positions. The Nomination Committee's primary purpose is to ensure that the Group has the best possible leadership and a clear plan for both Executive and Non-Executive succession.

Neil Janin
Chairman of the Nomination Committee
7 April 2016

Members of the Nomination Committee

The members of the Nomination Committee as at 31 December 2015 and at the date of this report are listed below.

Member	Independent
Neil Janin (Chairman)	Yes
David Morrison	Yes
Irakli Gilauri	No
Mike Anderson	Yes
Jacques Richier	Yes

Composition

The UK Corporate Governance Code recommends that a majority of the members of the Nomination Committee are Independent Non-Executive Directors, being independent in character and judgement and free from any relationship or circumstances which may, could or would be likely to, or appear to, affect their judgement. As such, the Board considers that the Group complies with the UK Corporate Governance Code.

Attendance at Nomination Committee Meetings

Only members of the Nomination Committee have the right to attend its meetings, but the Nomination Committee may invite others, including the Chief Executive Officer, the Head of Human Resources and external advisors, to attend all or part of any meeting if it thinks it is appropriate or necessary.

The Nomination Committee will meet as often as it deems necessary but in any event at least twice a year. Due to the short period of time between listing and the year end, the Nomination Committee did not formally meet in 2015.

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 terms of reference are available on the Group's website www.ghg.com.ge.

Election of Directors

The Independent Non-Executive Directors, apart from David Morrison, Neil Janin and Allan Hirst, were appointed in consultation with the sponsors for the IPO. Candidates were chosen on the basis of their extensive experience in relevant fields. Interviews were conducted and appointments made on the basis of strong interview performance.

As recommended by the UK Corporate Governance Code, all of the Directors will stand for election at the forthcoming Annual General Meeting, this being the first Annual General Meeting of the Company following their appointment. Going forward, the Directors will offer themselves for re-election on an annual basis. The biographical details of each Director are shown on pages 72 and 73 of this Annual Report. During the short period of time between listing and the year end, no formal performance evaluation has taken place. However, the Nomination Committee is satisfied that the Directors are performing effectively and are committed to the role. It is intended that a formal evaluation will take place in 2016.

Diversity

The Group takes account of diversity when recruiting, including when considering Board appointments. We see significant benefit to our business in having a Board drawn from a diverse range of backgrounds, since this brings the required expertise, cultural diversity and different perspectives to Board discussions. However, we do not believe this is achieved through simple quotas, whether it be gender or otherwise. Accordingly, the Group will continue to appoint candidates based on merit and relevant experience in accordance with the requirements of the UK Corporate Governance Code.

The Board consists of Directors with a wide range of skills and business experience drawn from a number of industries. This is critical for bringing both the expertise required and to enable different perspectives to be brought to Board discussions. Furthermore, the Board comprises a range of nationalities which brings cultural diversity as well as different geographical experiences and viewpoints. The combination of these factors means the Board benefits from a diverse range of competencies, perspectives and thoughts, which provides a dynamic environment for decision making.

I am pleased to report that at present four out of ten of our senior managers are female. At present we only have one female Board member but the Nomination Committee will continue to assess diversity in its Board appointments going forward.

Looking ahead to 2016

In the coming year the Nomination Committee will, in particular, be focused on Board and senior management succession and will make recommendations to the Board where appropriate. As previously mentioned, the Nomination Committee also intends to carry out a Board and committee evaluation. 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

I am pleased to present the first Audit Committee report for the Group. The Audit Committee was established as part of the IPO process and its terms of reference, together with the Audit Committee's composition were approved by the Board prior to listing. The Audit Committee's terms of reference are available on the Group's website www.ghg.com.ge.

The UK Corporate Governance Code recommends that all members of the Audit Committee be Non-Executive Directors and be independent in character and judgement and free from any relationship or circumstances which may, could or would be likely to, or appear to, affect their judgement. It further recommends that one such member has recent and relevant financial experience.

In compliance with the UK Corporate Governance Code, all of our members are Independent Non-Executive Directors.

The Audit Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Audit Committee's duties and responsibilities.

I am a trained securities lawyer who specialised in financial disclosure for over 25 years and therefore hold the recent and relevant financial experience required under the UK Corporate Governance Code. Tim Elsigood has over 35 years of international healthcare management experience in over 15 countries across the world. Jacques Richier has over 30 years' experience in the insurance industry and has held senior positions within various insurance businesses since 1998. Allan Hirst held senior positions at Citibank for nearly 25 years working in Russia, the Middle East and the Indian subcontinent until his retirement.

The Audit Committee will meet as often as is deemed necessary, but at least four times a year at appropriate times in the financial reporting and audit cycle. The Audit Committee normally invites the Deputy CEO, Finance and representatives from the external auditor to attend each meeting. Other members of the management team will also attend, as invited.

In addition to the formal meetings noted above, during the period up to listing, and as part of completing the Group's Financial Position, Prospects and Procedures Report, the Directors carried out a thorough assessment of the following key areas, drawing additionally on advice from various external sources:

- Board and Committee Governance;
- Internal Control Procedures;
- Information Security Framework;
- Risk Management Procedures;
- The IT Operating Environment;
- Financial Reporting Procedures; and
- Budgeting and Forecasting Procedures and Controls.

I look forward to reporting to you next year on how the Audit Committee continues to develop and the results of the work in our different areas of focus.

David Morrison
Chairman of the Audit Committee
7 April 2016

Members of the Audit Committee

The members of the Audit Committee as at 31 December 2015 and at the date of this report are listed below:

Member
David Morrison (Chair)
Allan Hirst
Tim Elsigood
Jacques Richier

Responsibilities of the Audit Committee

The key responsibilities of the Audit Committee are:

- to monitor the integrity of the Group's financial statements and regulatory announcements relating to its financial performance and review significant financial reporting judgements;
- to keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems;
- to oversee the relationship with the external auditors, including agreeing their remuneration and terms of engagement, monitoring their independence, objectivity and effectiveness, ensuring that the policy on their engagement to provide non-audit services is appropriately applied and making recommendations to the Board on their appointment, re-appointment or removal, to be put to shareholders at the Annual General Meeting;
- to report to the Board on significant financial reporting issues and judgements within the Group's financial statements;
- to review, where requested by the Board, the content of the Annual Report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- to monitor IT, cyber security, compliance, corporate security and similar (non-clinical) areas of operational risk;
- to review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Audit Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
- to monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management systems.

Meetings and attendance

During the short period of time between listing on 12 November 2015 and the financial year ended 31 December 2015, the Audit Committee met once and all members attended the meeting. Since the year end and prior to the approval of the Annual Report, the Audit Committee has met on three occasions.

Since the IPO, the Audit Committee has considered the following matters:

- its terms of reference;
- the approval of the external audit plan for the year ended 31 December 2015;
- the review and approval of the preliminary results announcement;
- its rolling agenda for 2016;
- the scope, priorities and resources of the internal audit function;
- the independence and objectivity of the external auditor, together with its effectiveness, and recommendation of its appointment to shareholders at the 2016 Annual General Meeting;
- the 2015 Annual Report and its recommendation to the Board as to its adoption as fair, balanced and understandable;
- the review of the budget and capital expenditure of the Group;
- the suitable period over which to assess the Group's viability in light of the Group's current position and principal risks;
- any material litigation faced by the Group;
- changes to the UK Corporate Governance Code; and
- the risk of fraud in recognition of healthcare revenue and gross premium written.

Significant issues considered in relation to the accounts

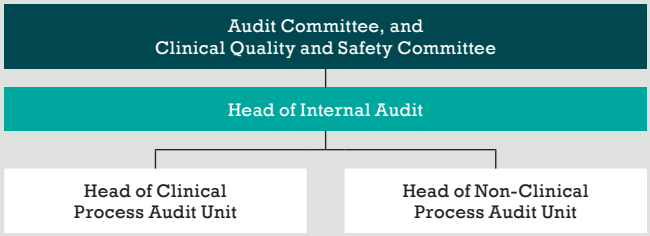
IT projects and implementation deadline

As part of the IPO process, the Group introduced its own IT services separate from that of the BGEO Group. The Audit Committee received reports from management on the current IT systems and new IT systems being developed. Whilst the Audit Committee has concluded that the current IT structure and systems in place are producing reliable data, the Audit Committee also notes that improved systems need to be put in place as current processes are too labour intensive. The Audit Committee intends to monitor the ongoing IT projects to ensure that they support an improving control framework.

The internal audit function

The Group has a newly established internal audit function. The Audit Committee received a presentation from the internal audit department on its remit, organisational structure and priorities. As the structure is new, it will continue to evolve in 2016. The Audit Committee has concluded that much of the clinical focus of internal audit's work will report to the Clinical Quality and Safety Committee. Non-clinical areas of internal audit will report to the Audit Committee, which will work closely with the Head of Internal Audit in order to ensure that it is appropriately staffed and able to operate effectively.

The organisational structure of the Group's internal audit function is presented in the diagram below:



The internal audit department is completely independent of the Group's management board. The Head of Internal Audit reports to the Audit Committee and the Clinical Quality and Safety Committee and has a staff of 10 employees. The Non-Clinical Process Audit Unit reports to the Audit Committee.

As part of its auditing procedures, the Non-Clinical Process Audit Unit is responsible for the following:

- identifying and assessing potential risks regarding the Group's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with Group policies, plans, procedures and business objectives;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Group's departments and divisions and auditing its subsidiaries;
- participating in external audits and inspections by regulators;
- making recommendations to management on the basis of the internal audits to improve internal controls; and
- monitoring the implementation of the external auditor's recommendations.

Internal control and risk management

The Board is ultimately responsible for the overall system of internal control for the Group and for reviewing its effectiveness. In accordance with the Financial Reporting Council's guidance, it carries out such a review annually, covering all material controls including those relating to financials, operations and compliance.

The system of 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. The Group has operating controls and policies in place which were reviewed by the Board as part of the listing process through the Financial Procedures and Prospects memorandum.

The Board discharges or intends to discharge its duties in this area by:

- having a formal policy on matters reserved for the Board and holding regular Board meetings to consider these matters;
- receiving regular management reports which provide an assessment of key risks and controls;
- ensuring there is a clear organisational structure with defined responsibilities and levels of authority;
- having the necessary documented policies and procedures in place; and
- scheduling regular Board reviews of financial budgets and forecasts.

The Board, with advice from the Audit Committee, is satisfied that an effective system of internal control and risk management is in place which enables the Group to identify, evaluate and manage key risks and which accords with the guidance published by the Financial Reporting Council.

Appointment of external auditor

The current external audit firm was appointed by Bank of Georgia Holdings PLC (now named BGEO Group PLC) in 2012 when the Group was wholly-owned by the BGEO Group and has served as the external auditor for the BGEO Group for three years. In accordance with best ethical standards, however, external auditors are required to adhere to a rotation policy whereby the audit engagement partner is rotated after five years.

For purposes of continuity during the Group's first reporting period since listing, this engagement has been continued by the Group. Going forward, the Group will adhere to best practice on audit firm rotation as a listed entity.

Ernst & Young has expressed its willingness to act as the external auditor of the Group. Separate resolutions proposing Ernst & Young's appointment and determination of its remuneration by the Audit Committee will be proposed at the 2016 Annual General Meeting and the Group will continue to monitor the performance of Ernst & Young going forward.

Audit Committee Report continued

External auditor independence
In order to ensure independence of the external auditor, the Group has in place a policy to govern the non-audit services carried out by the external auditor. The policy sets out the circumstances in which the external auditor may be permitted to undertake non-audit services. Allowable services are pre-approved up to £100,000. Any permissible non-audit services that exceed this threshold require approval from the Audit Committee and must be robustly justified and, if appropriate, tendered before being approved. No such approval has been required since listing.

Responsibilities for external audit
The Audit Committee has responsibility for monitoring the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirements. The Audit Committee recommends the appointment, re-appointment and removal of the Company's external auditor. The Audit Committee also reviews and sets the terms, areas of responsibility and scope of the audit as set out in the external auditor's engagement letter; the overall work plan for the forthcoming year, together with the associated fee proposal and cost effectiveness of the audit; any major issues which arise during the course of the audit and their resolution; key accounting and audit judgements; the level of errors identified during the audit; the recommendations made to management by the auditor and management's response; and the external auditor's overall performance.

The Committee reviewed the effectiveness of the external audit process during the year, considering performance, objectivity, independence and relevant experience and recommended to the Board the appointment of Ernst & Young as the Company's external auditor.

The Group continues to benefit from the insight and knowledge that the external auditor has of its business processes and controls and therefore the Board has approved resolutions to be proposed at the forthcoming Annual General Meeting, to appoint Ernst & Young as the Company's external auditor and to authorise the Directors to set Ernst & Young's remuneration.

Viability statement
In accordance with the UK Corporate Governance Code, the Directors are required to assess the viability of the Group. The Audit Committee spent time considering the timeframe over which the viability statement should be made. It was agreed that a period of three years would be appropriate. This corresponds to the period for the stress testing undertaken by the Group and takes into consideration the Company's working capital model and business planning which also covers a three year period. The Audit Committee discussed its analysis with management and the Board. The viability statement is set out in the strategic report on page 46.

Non-audit work and independence
In preparation for listing, due to Ernst & Young's extensive knowledge of the Group, the Board decided that Ernst & Young were best placed to undertake the considerable amount of work required in the short timeframe in the preparation for listing.

As a result of this, for the year ended 31 December 2015, a total of US$1,282,264 non-audit fees incurred for Ernst & Young's services in relation to the listing of the Group are not expected to re-occur in the future. Therefore, the Audit Committee does not consider that this work compromises the independence of the external auditor.

Whistleblowing
The Group is committed to the highest standards of openness, honesty, integrity and accountability and as a result has a whistleblowing policy in place. The policy is intended to make employees or third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group. Examples include fraud, breakdown of internal controls, misleading customers, bribery, dishonesty, corruption and breaches of data. There have been no instances of whistleblowing during the period under review.

Review of the "fair, balanced and understandable" requirement in respect of Annual Reports
Having been requested by the Board to advise it, the Audit Committee examined the Annual Report to consider whether 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.

In considering this statement, the Audit Committee took the following matters into consideration:
- the Chief Executive Officer carries out a detailed review of the Annual Report at an early stage of the process;
- the Chairman and Chief Executive Officer, together with the appropriate senior management, spend a significant amount of time considering whether the overall tone and message of the Annual Report is correct;
- the Company Secretary works very closely with each committee chairman to produce each committee report;
- individual sections of the Annual Report and financial statements are drafted by suitably experienced senior management;
- a final draft of the Annual Report is reviewed by the Audit Committee and the external auditor on a timely basis to allow matters to be considered fully;
- an extensive verification process is undertaken to ensure factual accuracy; and
- an advanced draft is considered and reviewed by the Group's legal advisors.

After consideration of all of this information, the Audit Committee is satisfied that the Annual Report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Evaluation
As the Audit Committee was formed as part of the IPO process and therefore has only been in existence for a short period, an evaluation of performance has not been undertaken. The Audit Committee intends to carry out an evaluation in 2016.

Priorities for 2016
As mentioned above, the Audit Committee's priorities for 2016 are to monitor the Group's IT systems that have been introduced post listing, carry out the first Audit Committee evaluation, to scrutinise the internal audit process to ensure satisfaction with the quality and coverage of the work carried out by internal audit and to ensure that its members receive ongoing training to ensure the Audit Committee's effectiveness.

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 first Clinical Quality and Safety Committee (the 'Committee') report for the Group. The Committee was established as part of the IPO process to assist the Board in monitoring certain non-financial risks, including clinical performance, health and safety, and healthcare facilities of the Group. The terms of reference and committee membership were approved by the Board as part of the IPO process.

The Committee will meet as often as is deemed necessary, but at least four times a year, to discharge its duties. Due to the short period of time between listing and the year end, the Committee met once to discuss the focus of the Committee and how best to discharge its duties going forward and all committee members were present. Since the year end and prior to the approval of the Annual Report, the Committee has met on one occasion.

As the Committee has only been in existence for a short period of time, an evaluation of the Committee's performance has not been undertaken. We intend to undertake an evaluation in 2016.

I look forward to reporting to you next year on how the Committee continues to develop and the areas of work within its remit that it has focused on.

Mike Anderson
Chairman of the Clinical Quality and Safety Committee
7 April 2016

Membership, roles and responsibilities

The members of the Committee as at 31 December 2015 and at the date of this report are listed below.

Member
Mike Anderson (Chairman)
David Morrison
Ingeborg Oie
Tim Elsigood

The key responsibilities of the Committee are to:

- promote a culture of high quality and safe patient care and experience, which recognises the importance of health and safety and risk management;
- monitor the Group's clinical and health and safety risks and their associated processes, policies and controls;
- 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 reporting 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; and
- scrutinise the adequacy, effectiveness and quality of the Group's health and safety policy and procedures.

In discharging its duties, the Committee works with the newly hired Deputy CEO, Clinical and supervises the clinical quality service of internal audit (the organisational and reporting structure of the internal audit department is set out on page 79).

The Committee's full terms of reference are available from the Group's website www.ghg.com.ge.

Looking ahead to 2016

The Clinical Quality and Safety Committee has reviewed a year planner and priorities for 2016 and its focus for the coming year is:

- ensuring that the Group has the correct procedures and policies in place in the area of health and safety, in order to ensure a high quality service to patients;
- working with the internal audit department and management to understand areas within the Group in which health and safety can be improved; and
- conducting a formal performance evaluation of the Committee.

Remuneration Report

Neil Janin
Chairman of the Remuneration Committee

1. Chairman's Statement

On behalf of the Board, I am pleased to present to you our first Directors' Remuneration Report for the Group. The Company established its Remuneration Committee as part of the IPO process. The report sets out the Remuneration Policy (the 'Policy') for our Executive Management Team which consists of our Chief Executive Officer, Nikoloz Gamkrelidze, and key senior managers of key functions and divisions within the Group. In this report we refer to our Executive Management Team collectively as "Executive Management" and each individual in the team as an "Executive".

Executive Management worked to bring to market and close a successful IPO in a period where global financial markets were extremely turbulent, all the while completing acquisitions and growing the business. In its 2015 compensation actions, the Remuneration Committee recognised the performance of Executive Management in achieving this in such difficult circumstances and awarded discretionary compensation at or near the maximum opportunity available under our Policy.

In determining the levels of Executive Management rewards, the Remuneration Committee will continue to ensure that there is a strong and demonstrable link between actual remuneration received and the achievement of the Group's strategic and business objectives.

The Group has adopted, subject to shareholder approval, a remuneration structure that is simple and aligns the interests of shareholders and Executive Management, but is competitive enough to attract the right calibre of individual.

This structure is comprised of two key components:

- salary compensation consisting of a modest cash sum and deferred shares that vest over a four 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 key performance indicators (KPIs) in each financial year. We pay no cash bonuses, which is another distinguishing feature of our structure.

The overall effect of our remuneration structure is that the majority of an Executive's compensation is paid in the form of deferred shares with long vesting periods, thus naturally aligning the interests of Executive Management with that of the Group's shareholders.

There are certain circumstances in which deferred share salary shares and discretionary deferred share compensation may not vest, for example, if the Executive is dismissed, resigns or does not accept a contract renewal. If an Executive departs from the Group on good terms, however, the Board may, in its discretion permit shares to vest. This promotes loyalty amongst our Executive Management and motivates them to work in the long-term interests of the Group.

As a very significant percentage of an Executive's compensation is in the form of deferred shares with long vesting periods, Executive Management are incentivised on an ongoing basis and for the long term. Therefore, we do not see the need to operate a long-term incentive plan (LTIP) as we have achieved the same objectives through our deferred share compensation structure. By focusing Executives on the Group's sustainable, long-term performance, our Policy guards against any Executive taking risks which endanger our long-term stability. Our structure aligns both salary and discretionary remuneration with long-term stability and share price growth.

In line with the UK Corporate Governance Code, the annual statement and the annual report on remuneration will be put to an advisory shareholder vote at the forthcoming Annual General Meeting and the Policy will be put forward to a binding shareholder vote. If approved by shareholders, the Policy will become formally effective.

The key components of remuneration are set out in detail within the Remuneration Policy Report.

I would like to thank our Executive Management and employees for their continued hard work and dedication, especially in the lead up to the Company's IPO.

Neil Janin
Chairman of the Remuneration Committee
7 April 2016

2. 2015 Annual Remuneration Report

This Directors' Remuneration Report has been prepared in accordance with the Companies Act 2006 (the 'Act') and the relevant requirements of the Listing Rules. As required by the Act, a binding resolution to approve the Policy set out in section 4 and an advisory resolution to approve all other sections of this Directors' Remuneration Report (other than section 3 which describes senior management remuneration) will be proposed at the Annual General Meeting, which is intended to be held on 26 May 2016.

2.1 Governance summary

Membership

The members of the Remuneration Committee as at 31 December 2015 and at the date of this report are listed below:

Member
Neil Janin (Chairman)
Ingeborg Oie
Tim Elsigood
Irakli Gilauri

In compliance with the UK Corporate Governance Code, the Remuneration Committee is currently comprised of three independent Non-Executive Directors. 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.

2.2 Remuneration Committee responsibilities

The Board sets the Group's Policy and the Remuneration Committee is responsible, within the authority delegated to it by the Board, for determining specific remuneration packages and the terms and conditions of employment for Executive Management. The Remuneration Committee ensures that each Executive is provided with the appropriate incentives to enhance the Group's performance and to reward them for personal contributions to the success of the Group. The Committee's full terms of reference are available on the Group's website www.ghg.com.ge.

The Company Secretary acts as secretary to the Committee.

2.3 Attendance at Remuneration Committee meetings

In the short period of time between listing and the year end of the Company, no Remuneration Committee meetings were held. Since the year end and prior to the approval of the Annual Report, the Committee has met on two occasions. At the request of the Remuneration Committee, other individuals can attend Committee meetings in order to provide advice on remuneration matters. Attendees at Remuneration Committee meetings do not participate in discussions or decisions related to their own remuneration. Going forward, the Committee will meet as often as is deemed necessary but in any event at least twice a year.

2.4 Advice to the Committee

The Committee keeps itself fully informed on developments and best practice in the field of remuneration and it seeks advice from external advisors when appropriate. No external remuneration consultants were engaged in the period from listing to the year end.

2.5 Statement of shareholder voting

The Company has not held an Annual General Meeting since listing and therefore there are no voting results on which to report. Details of the remuneration-related voting will be reported on in the 2016 Directors' Remuneration Report.

Remuneration Report continued

2.6 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 GHG and JSC GHG for the year ended 31 December 2015. For 2015, 84% 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 four years.

	GHG and JSC GHG cash salary (US$)[1]	JSC GHG deferred share salary (US$)[2]	Total salary (US$)	Discretionary deferred share compensation (US$)[3]	Taxable benefits (US$)[4]	Pension benefits (US$)[5]	Dividend equivalents (US$)[6]	Total US$
2015	150,463	202,699	353,162	600,946	451	1,505	–	956,064

Notes:

1 GHG and JSC GHG cash salaries are expressed in US Dollars but paid in GBP and Lari, converted into the respective currency as described in Note 2 of the table in section 4.2 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 in respect of service in the relevant year. The value attached to each GHG share for the purpose of this award is US$1.16 per share (based on the EY valuation report dated 1 April 2015). Mr Gamkrelidze was awarded 175,000 deferred share salary shares. For the purpose of calculating the maximum opportunity for discretionary deferred share compensation, however, the value of the deferred share salary is instead calculated by reference to the share price as of the date of admission to listing which was US$2.58298 (based on the official share price of GBP1.7 per share converted into US Dollars using an exchange rate of 1.5194, being the official exchange rate published by the Bank of England on the same date), and on that basis deferred share salary amounted to US$452,022.

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 US$602,022, a figure calculated by adding 100% of total salary comprising annual cash salary of US$150,000 and deferred share salary of US$452,022 (calculated as described in the last sentence of Note 2 above). The value of the 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 GBP1.7388 per share converted into US Dollars using an exchange rate of 1.4552, 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. This discretionary compensation in respect of 2015 is deferred and 33.33% vests in January 2017, 33.33% vests in January 2018 and 33.33% vests in January 2019, subject to the leaver provisions described in section 4.5(b) of the 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 Policy. The basis for determining Mr Gamkrelidze's 2015 discretionary award is described in section 2.7 below.

4 Benefits. The figure shows the gross taxable value of health and disability insurance and Directors' and Officers' liability insurance.

5 Pension. The figure shows the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme.

6 Dividend equivalents. The figure shows the dividend value paid in respect of nil-cost options exercised in relation to 2015.

7 Mr Gamkrelidze was reimbursed for reasonable business expenses, on provision of valid receipts.

8 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 2015.

The following table sets out details of total remuneration for the Chief Executive Officer, Mr Gamkrelidze, for the year ended 31 December 2015 and his discretionary compensation as a percentage of maximum opportunity.

	2015
Single total figure of remuneration (US$)	956,064
Discretionary compensation as a percentage of maximum opportunity (%)	100

Note:
The maximum opportunity is calculated as set forth in Note 3 to the table above.

2.7 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 2015, as well as his performance against these.

Key performance measure	2015 Target	2015 Performance
Delivery of the Initial Public Offering	Successful delivery of the Initial Public Offering	Successfully completed
Delivery of planned acquisitions	Delivery on strategy	All planned acquisitions completed
Organic growth	15%-20%	17.3%
EBITDA margin	25%-27%	27.4%
Loss ratio	80%-85%	83.4%
Delivery of outpatient strategy	Delivery on strategy	Successfully launched
Retention of claims within EVEX	15%-20%	16.1%
On time delivery of hospital capex projects	Delivery on strategy	Projects completed

Mr Gamkrelidze's KPIs largely track the Group's KPIs as he is expected to deliver on the Group's strategy. 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.

In respect of 2015, the Committee determined that Mr Gamkrelidze met all of his KPIs. The Committee viewed Mr Gamkrelidze's performance as excellent. As a result, the Committee determined that Mr Gamkrelidze should be awarded discretionary deferred share compensation valued at US$600,946. 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 2016, the Remuneration Committee plans to measure Mr Gamkrelidze's performance against KPIs which reflect the Group's strategy and priorities.

Financial
Meeting budget for revenue, net profit and free cash flow with:
- Organic growth
- EBITDA margin
- Loss ratio net of commissions

Strategic development projects
- Outpatient strategy of delivery of a minimum of six new clusters
- On time delivery of two of the largest hospital capex projects
- Successful integration of the GPC acquisition (subject to close)
- Retention of claims within Evex

People
- Quality of care improvements
- Talent development and retention

2.8 Percentage change in the remuneration of the Chief Executive Officer

As the Company listed during 2015, there is no disclosure of remuneration relating to prior years. Accordingly, this report does not set out the percentage change in remuneration as there is no prior year comparator which can be shown.

2.9 Single Total Figure of remuneration for Non-Executive Directors

The table below sets out the remuneration received by each Non-Executive Director for the year ended 31 December 2015.

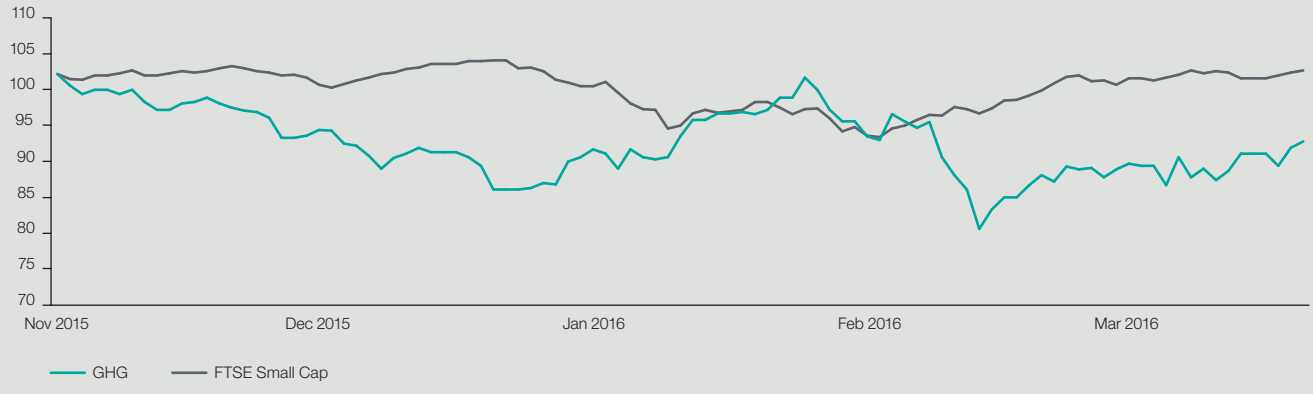
	Total GHG Fees (US$)
Irakli Gilauri	–
David Morrison	102,664
Neil Janin	89,706
Ingeborg Oie	84,450
Allan Hirst	84,706
Mike Anderson	88,373
Tim Elsigood	93,456
Jacques Richier	81,160

Notes:
Irakli Gilauri has waived his entitlement to fees during 2015 as he is a representative of BGEO Group PLC, the principal shareholder of GHG. The Non-Executive Directors' fees as set out in the table above are in relation to their role on the GHG Board.

2.10 Total Shareholder Return

Georgia Healthcare Group PLC TSR
The following graph compares the Total Shareholder Return (TSR) of the Company with the companies comprising the 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 2016.

Total shareholder return



Source: Thomson Datastream.

Remuneration Report continued

2.11 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	Distribution to shareholders by way of dividends
Year ended 31 December 2014 (US$) (dividend for year 2013)	27,687,169	–
Year ended 31 December 2015 (US$) (dividend for year 2014)	38,349,827	–
Percentage change	38.5%	–

The Company has stated in its listing prospectus that it does not intend to pay any dividend for the first two years following listing. 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.

2.12 Directors' interests in shares (audited)

The following table sets out each Director's interests in shares in the Company as at 31 December 2015.

	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	117,500	–	175,000	292,500
Irakli Gilauri	411,700	N/A	N/A	411,700
David Morrison	116,600	N/A	N/A	116,600
Neil Janin	88,000	N/A	N/A	88,000
Allan Hirst	148,700	N/A	N/A	148,700
Ingeborg Oie	29,000	N/A	N/A	29,000
Tim Elsigood	14,700	N/A	N/A	14,700
Mike Anderson	11,500	N/A	N/A	11,500
Jacques Richier	–	N/A	N/A	–

None of Mr Gamkrelidze's connected persons have any interests in the shares of the Company.

From 1 January 2015 and up to the date of signing of this report, in accordance with our remuneration Policy, Mr Gamkrelidze was awarded a total of 412,500 GHG shares which are unvested and unexercised. Further information about this award is set out in the Notes to the table provided in section 2.6.

There have been no other changes in interests in GHG shares since 31 December 2015.

Due to the fact that the majority of an Executive's compensation takes the form of deferred shares, Executive Management will in future years hold large amounts of unvested shares. Therefore, the Group does not have a policy requiring Executive Management to hold a specified number of shares. The Group also does not require Non-Executive Directors to hold a minimum number of shares but some of the Non-Executive Directors have nevertheless decided to become shareholders.

2.13 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 are effective from 4 September 2015 with each Non-Executive Director being put forward for election at the 2016 Annual General Meeting, being the first Annual General Meeting of the Company 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. 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. Key Senior Managers Remuneration

At the time of this report, in addition to the Chief Executive Officer, there are three key senior managers. On 29 April 2015, the Group entered into service agreements with the three individuals. The remuneration received by each of them for the year ended 31 December 2015 is set out in table 3.1 below. This disclosure is made solely in the interests of transparency, since there is no requirement to make this disclosure. Therefore, remuneration of the key senior managers will not form part of the Policy set out in section 4 of this Remuneration Report, nor is it subject to shareholder approval.

The remuneration structure set out in the Policy is broadly applied to the key senior managers. This means that, as for the Chief Executive Officer, the key senior managers receive remuneration based on two components:

- salary which includes both a modest cash sum and deferred share compensation which vests over a four year period; and
- a discretionary award, 100% payable in deferred share compensation vesting over a three year period, which will be dependent on both Group performance and the key senior manager achieving his or her KPIs.

3.1 Single total figure of remuneration for key senior managers

The table below sets out the remuneration received by each of JSC GHG's key senior managers for the year ended 31 December 2015 in respect of his employment.

	JSC GHG cash salary (US$)[1]	JSC GHG deferred share salary (US$)[2]	Total salary (US$)	Discretionary deferred share compensation (US$)[3]	Taxable benefits, pension and dividend equivalents (US$)[4]	Total US$
David Vakhtangishvili	72,222	50,045	122,267	247,979	722	370,968
Giorgi Mindiashvili	92,686	50,045	142,731	232,797	927	376,455
Irakli Gogia	90,278	50,045	140,323	230,266	903	371,492

Notes:

1 JSC GHG cash salary is expressed in US Dollars but paid in Lari. David Vakhtangishvili's cash salary as shown in the table above is for the period from 1 May 2015 to 31 December 2015.

2 Deferred share salary. The figures show the value of GHG shares underlying nil-cost options granted in respect of service in the relevant year. The value attached to each GHG share for the purpose of this award is US$0.94 per share (based on the EY valuation report dated 1 April 2015; the per share value is different to the value attached to the Chief Executive Officer award as the award dates differ). The key senior managers were each awarded 53,000 deferred share salary shares. For the purpose of calculating the maximum opportunity for discretionary deferred share compensation, however, the value of the deferred share salary is instead calculated by reference to the share price as of the date of admission to listing which was US$2.58298 (based on the official share price of GBP1.7 per share converted into US Dollars using an exchange rate of 1.5194, being the official exchange rate published by the Bank of England on the same date, and on the basis deferred share salary amounted to US$ 136,898). Under the deferred share programme, the option awards in respect of deferred share salary are formally granted in January of the year following the work year even though the number of deferred share salary shares is fixed in the respective contracts. The terms and conditions applying to deferred share salary, and an explanation of why it is not subject to performance measures, are described in section 4.2(b) of the Policy.

3 Discretionary deferred share compensation. The figures show the value of GHG shares underlying nil-cost options granted in the relevant year. The discretionary deferred share compensation award is calculated by adding 100% of total salary comprising annual cash salary and deferred share salary (calculated as described in Note 2 above). The value of the 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 GBP1.7388 per share converted into US Dollars using an exchange rate of 1.4552, being the official exchange rate published by the Bank of England on the same date). For 2015, Mr Vakhtangishvili, Mr Mindiashvili and Mr Gogia were awarded options over 98,000, 92,000 and 91,000 shares respectively. This discretionary compensation in respect of 2015 is deferred and 33.33% vests in January 2017, 33.33% vests in January 2018 and 33.33% vests in January 2019. 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 Policy.

4. See Notes 4, 5 and 6 in the table provided in section 2.6.

3.2 Shareholdings of key senior managers

As at 31 December 2015, the key senior managers as listed above do not hold any vested or unvested GHG shares. It is envisaged that in future years, in accordance with our remuneration Policy, the key senior managers will hold both vested and unvested shares. Irakli Gogia subscribed for 9,400 GHG shares as part of the Company's IPO.

4. Directors' Remuneration Policy

4.1 Statement of implementation of the Policy in 2016

Subject to shareholder approval, the Policy will take effect from the date of the 2016 Annual General Meeting and is intended to apply until the date of the Annual General Meeting in 2019. As such, there will be no significant changes between the Policy as described in this annual report and its implementation. The Policy applicable to Directors which is described in this section 4 of the Directors' Remuneration Report will be put to shareholders for a binding vote at the 2016 Annual General Meeting.

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.

Remuneration Report continued

4.2 Policy Table

The Policy provides for the sole Executive Director's remuneration package to comprise the elements set out below:

Remuneration 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 four 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 US Dollars but paid in GBP on each monthly payment date[2]. • Cash salary payable under the service contract with JSC GHG is expressed in US 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 4.5(b) on page 93. 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.

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 Director 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 4.2(b) on page 90). 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 4.5(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 4.2(b) on page 90). 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.

Remuneration Report continued

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 US 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 US 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-year vesting period, 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 2.7 above for a description of the KPIs set for Mr Gamkrelidze in respect of 2015 and his performance against these, as well as the KPIs which have been set for him in respect of 2016.

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.

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 need 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 remuneration policy 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 senior 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.

4.3 Elements of the Policy – Non-Executive Directors

In 2015, 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 £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:

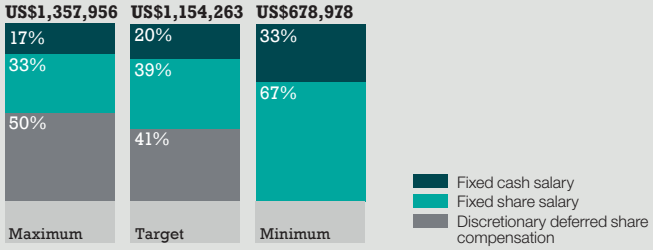
1 Non-Executive Directors did not receive any deferred share salary or discretionary deferred share compensation, pensions, benefits or any variable or performance-linked remuneration or incentives in 2015.
2 Non-Executive Directors are reimbursed for reasonable business expenses, including travel expenses, 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.

Remuneration Report continued

4.4 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 2016 under the Policy at three different performance levels. It should be noted that, at the maximum level, 83% of Mr Gamkrelidze 2016 compensation will be in the form of deferred shares for which the vesting period is either three or four years. At the minimum level, 67% of Mr Gamkrelidze's 2016 compensation will be in the form of deferred shares for which the average vesting period is either three or four 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 2016 in respect of both his service contract with GHG and JSC GHG will be US$225,000. For the purpose of calculating the value of deferred share salary shares in this chart a share price of US$2.58298 (this being the share price as of the date of the IPO) per share has been used. Deferred share salary in respect of 2016 will be formally granted in January 2017 and will vest from January 2018 to January 2021. For the purpose of this chart, the value of pension and benefits for 2015 has been used as it is assumed that pension and benefits in 2016 will be substantially the same.

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 4.2(b). For the purpose of calculating the value of discretionary deferred shares in this chart a share price of US$2.58298 (this being the share price as of the date of the IPO) per share has been used. Discretionary deferred shares in respect of 2016 will be formally granted in January 2017 and will vest in January 2018, January 2019 and January 2020.

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 2016 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 2016 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).

4.5 Policy on payments for loss of office

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.

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 2015 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 is described in paragraph (c) below and its approach to payments for loss of office for future Executive and Non-Executive Directors is described in paragraph 4.6 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 that 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.

(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:

(a) 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;
(b) 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;
(c) 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 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.

4.6 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 4.2 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.

Remuneration Report continued

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 Small Cap 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.

4.7 Consideration of shareholder views and employment conditions elsewhere in the Group

The Remuneration Committee considers the pay and employment conditions of Executive Management (other than Directors) when determining an Executive Director's remuneration as well as changes in pay and employment conditions across the Group as a whole in relation to the proposed pay for Directors.

The Remuneration Committee relies on its judgement, particularly given that international comparisons are the most relevant for senior management and the Georgian labour market is more relevant for other employees.

As a newly listed company, the Remuneration Committee takes an active interest in shareholder views on its Policy and will be reviewing voting outcomes from the Company's first Annual General Meeting expected to be held on 26 May 2016.

4.8 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.

Signed on behalf of the Board of Directors

Neil Janin
Chairman of the Remuneration Committee
7 April 2016

Directors' Report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2015.

Information contained elsewhere in the Annual Report

Information	Location in Annual Report
Future developments	Pages 22 to 33
Employee matters	Pages 39 to 43
Environmental matters	Pages 44 and 45
Greenhouse gas emissions	Pages 44 and 45
Viability statement	Page 46
Risk management	Pages 46 to 59
Principal risks and uncertainties	Pages 47 to 49
Directors' Governance Statement	Pages 67 to 71
The Board of Directors	Pages 72 and 73
Nomination Committee Report	Pages 76 and 77
Audit Committee Report	Pages 78 to 80
Clinical Quality and Safety Committee Report	Page 81
Going concern	Page 113
Share capital	Note 23 on page 133
Information on the Group's financial risk management and its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk	Note 37 on pages 138 to 144
Events after reporting period	Note 40 on page 147

Directors

The Directors of the Company who served during the year and up to the date of the signing of the financial statements, together with their biographies, are shown on pages 72 and 73 of this Annual Report.

All Directors are required by the Company's Articles of Association and the UK Corporate Governance Code to be elected by shareholders at the first Annual General Meeting following their appointment. Going forward, the Directors will offer themselves for re-election on an annual basis.

Powers of Directors

The Directors may exercise all of the powers of the Company subject to applicable regulations and legislation and the Company's Articles of Association.

Directors' conflicts of interest

The Group has procedures in place for the management of conflicts of interest. Should a Director become aware that they, or their connected party, have an interest in an existing or proposed transaction with the Group, they should notify the Company Secretary before the next meeting or at the meeting. Directors have a continuing obligation to update any changes to these conflicts.

Non-Executive Directors' remuneration

Non-Executive Directors' fees are determined by the Board from time to time. Non-Executive Directors' fees (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 £750,000 per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the Company. The fees paid to the Non-Executive Directors are shown on page 85 of this Annual Report.

Directors' indemnities and insurance

The Group maintains liability insurance for its Directors and Officers. The Company has also granted indemnities to its Directors and the Company Secretary. Neither the indemnity nor insurance cover provides cover in the event that a Director (or Officer or Company Secretary) is proved to have acted fraudulently or dishonestly.

Directors' interests

The Directors' beneficial interests in ordinary shares of GHG as at 31 December 2015 are shown on page 86 of this Annual Report.

Articles of Association

The Articles of Association of the Company can only be amended by special resolution at a general meeting. The Articles of Association of the Company are available on the Group's website www.ghg.com.ge.

Share capital and rights attaching to the shares

Details of the Company's issued share capital and movements in share capital during the year are provided in Note 23 to the consolidated financial statements on page 133 of this Annual Report. As at 31 March 2016 there was a single class of 131,681,820 ordinary shares with a nominal value of £0.01 each in issue, with one vote per share. The rights and obligations attaching to the Company's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and the Company's Articles of Association, to:

- have shareholder documents made available to them including 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.

Voting rights and restrictions on transfer of shares

None of the ordinary shares carry any special rights with regard to control of the Company. 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 the Company's shares; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

All employees (including Directors) that are deemed to be Company insiders have complied with the Group Share Dealing Code.

There are no restrictions on exercising voting rights save in situations where the Company 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 the Company). The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Directors' Report continued

Major interests in shares

As at 31 December 2015, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its total voting rights of 3% or more.

Shareholder	Number of ordinary shares	Percentage of issued ordinary share capital
JSC BGEO Investments	85,631,820	65.03%
T. Rowe Price International	6,200,000	4.71%
Wellington Management	5,500,000	4.18%
F&C Asset Management	5,250,000	3.99%
Franklin Templeton Investment Management	5,000,000	3.80%

During the period 31 December 2015 to 31 March 2016 the Group did not receive any notifications under rule 5 of the Disclosure and Transparency Rules.

Any future regulatory filings by shareholders will be available on the Group's website: www.ghg.com.ge and the London Stock Exchange website: www.londonstockexchange.com.

Relationship Agreement

On 23 October 2015, the Company entered into a relationship agreement with JSC BGEO Investments and Bank of Georgia Holdings PLC (now named BGEO Group PLC) which regulates the degree of control that BGEO Group PLC and its associates may exercise over the management and business of the Group. The principal purpose of the relationship agreement is to ensure that the Company and its subsidiaries are capable at all times of carrying on their business independently of BGEO Group PLC and its associates. The relationship agreement took effect on admission to listing and will continue until the earlier of: (i) the Company's shares ceasing to be admitted to listing on the Official List; and (ii) BGEO Group PLC, together with its associates, ceasing to own or control (directly or indirectly) 20 per cent. or more of the voting share capital of the Company. If BGEO Group PLC 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 the Company.

Under the relationship agreement, for so long as BGEO Group PLC and its associates together hold 20 per cent. or more of the voting share capital of the Company, BGEO Group PLC shall, and has agreed to procure that each of its associates shall, amongst other things:

- conduct all transactions, agreements or arrangements entered into between the Company or any of its subsidiaries (on the one hand) and BGEO Group PLC and its associates (on the other) 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 the Company 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 of the Company (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 Group PLC.

The relationship agreement entitles BGEO Group PLC to appoint one person to be a Non-Executive Director of the Company. BGEO Group PLC will retain the right to appoint one Non-Executive Director of the Company for so long as it (together with its associates) holds at least 20% of the voting share capital of the Company.

The relationship agreement also provides that (subject to permitted exceptions) neither BGEO Group PLC nor its associates shall compete with the business of the Group nor use any names associated with the Group and that the Group shall not use any names associated with BGEO Group PLC or its associates.

A copy of the relationship agreement is available to view at the Company's registered office.

Related party transactions

Details of related party transactions are set out in Note 39 to the consolidated financial statements on page 146 of this Annual Report.

Results and dividends

The Group made a profit before taxation for the year of GEL 23.6 million (year ended 31 December 2014 GEL 14.5 million). Profit after taxation for the year was GEL 23.6 million (year ended 31 December 2014 GEL 13.3 million).

The Company may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by its Directors. The Directors may also pay interim dividends as appear to be justified by the profits of the Company available for distribution. As the Company is a holding company, it 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 any dividends to its shareholders. The Company has stated in its listing prospectus that it does not intend to pay any dividend for the first two years following the admission of shares to listing.

Significant contracts and agreements

At no time during 2015 did any Director hold a material interest in any contracts of significance with the Company or any member 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.

Political donations

The Group did not make any political donations or incur any political expenditure during 2015.

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 contract and meet obligations accordingly. The Group does not follow any specific published code or standard on payment practice.

Code of conduct and ethics

The Group is committed to the highest standards of conduct in all aspects of its business. As part of the listing process, the Group adopted a code of conduct and ethics policy that its Directors and employees are expected to abide by.

External auditor

A resolution to appoint Ernst & Young LLP as auditors of the Group will be put to shareholders at the Annual General Meeting.

Annual General Meeting

Our Annual General Meeting will be held at 10.00 am (London time) on Thursday, 26 May 2016 at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London, EC4V 6JA, UK. The Notice of Meeting, together with an explanation of the business to be dealt with at the meeting, is included as a separate document sent to Shareholders who have elected to receive hard copies of shareholder information and is also available on the Group's website.

Statement of disclosure of information to the auditor

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware and each Director has taken all steps that he/she reasonably should have taken as Directors in order to make him/herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the accompanying consolidated and separate financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the accompanying consolidated and separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and applicable law.

Under company law, the Directors must not approve the accompanying consolidated and separate financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the accompanying consolidated and separate financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards 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 Group will continue in business.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the transactions of the Group, to disclose with reasonable accuracy at any time the financial position of the Group and to enable them 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 financial statements, Article 4 of the IAS Regulation.

The Directors have further responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance statement that comply with that law and those regulations. The Directors are also responsible for the maintenance and integrity of the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each Director confirms that to the best of his/her knowledge:

- the consolidated and separate financial statements, prepared in accordance with International Financial Reporting Standards 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;
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report (which includes the accounts), taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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.

The Directors' Report on pages 95 to 97 were approved by the Board of Directors on 7 April 2016 and signed on its behalf by:

Gurbinder Kaur Hodges
Company Secretary
7 April 2016

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 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 2015 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	Parent company
Consolidated statement of financial position as at 31 December 2015	Separate statement of financial position as at 31 December 2015
Consolidated statement of comprehensive income for the year then ended	Separate statement of changes in equity for the period 27 August 2015 to 31 December 2015
Consolidated statement of changes in equity for the year then ended	Separate statement of cash flows for the period 27 August 2015 to 31 December 2015
Consolidated statement of cash flows for the year then ended	Related notes 1 to 40 to the financial statements
Related notes 1 to 40 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 revenue and gross premium written In executing our audit response to the above risk of material misstatement, we also considered the risk of fraud in relation to management override of controls particularly post close adjustments and significant areas of accounting estimate.
Audit scope	• We performed an audit of the complete financial information of three 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 88% of Group's pre-tax profit, revenue and total assets.
Materiality	• Overall Group materiality is GEL 1.2 million which represents 5% of pre-tax profit.

Our assessment of risk of material misstatement

We identified the risk 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 this risk, 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	What we concluded to the Audit Committee
Risk of fraud in recognition of healthcare revenue and gross premium written *Balance of GEL 239.1 million, prior year comparative GEL 196.3 million* The Group is one of the largest healthcare providers in Georgia. The Group's management may be under pressure to report strong financial performance in order to meet the expectations of internal and external stakeholders, particularly following the listing of Georgia Healthcare Group PLC and in light of lowered economic growth forecasts in Georgia and the devaluation of the Georgian Lari against the US Dollar. Further, compensation tied to the performance of the Group may create an incentive for management to manipulate results. 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 79); Accounting policies (page 118); and Notes 24 and 25 of the Consolidated Financial Statements (page 134)*	We performed a walkthrough of the healthcare revenue and gross premium written processes and assessed the design and operating effectiveness of key controls. We increased our standard sample size for transactional testing by at least 1.7 times according to our statistical sampling methodology, to respond to this risk of fraud. We agreed transactions on a sample basis back to supporting audit evidence, such as agreements, receipt of cash and invoices; where appropriate, we also recalculated the fees charged. We performed analytical procedures and journal entry testing in order to identify and test the risk of misstatement arising from management override of controls. We performed substantive analytical review to consider unusual trends that could indicate material misstatements, and we considered changes in key drivers of healthcare revenue, such as bed occupancy, number of patients and number of beds. For the gross premium written, we recalculated the unearned premium reserve and related income statement accounts, and we performed analytical reviews, including ratio analysis, trend analysis and prediction analysis. We also performed cut-off testing to obtain evidence that revenue is recognised in the correct period. We performed full and specific scope audit procedures over this risk area in six components, which covered 94% of the risk amount.	Based on the results of our audit procedures, we concluded that the healthcare revenue and gross premium written for the year ended 31 December 2015 are materially correct.

Independent Auditor's Report continued

To the members of Georgia Healthcare Group PLC

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 findings 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 make sure we had adequate quantitative coverage of significant accounts in the financial statements, we selected nine components. Of the nine components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For the remaining six components ("specific scope components"), we performed audit procedures on specific accounts within the components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Scope	Procedures performed by	Number of components
Full	Primary team	3
Specific	Primary team	5
Specific	Component team	1
Total		**9**

Details of the specific scope component which was audited by a component team are set out below:

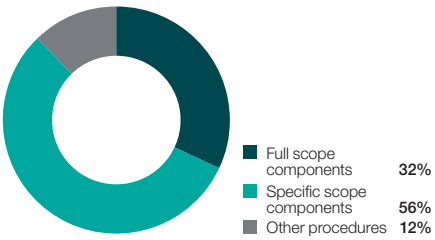
Component	Location	Scope	Auditor
JSC Medical Insurance Company Imedi L	Georgia	Specific	EY

Components subject to a full scope audit account for over 46% of the Group's revenue, over 32% of the Group's pre-tax profit and over 44% of the Group's total assets. Components subject to a specific scope audit account for over 48% of the Group's revenue, over 56% of the Group's pre-tax profit and over 45% of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.

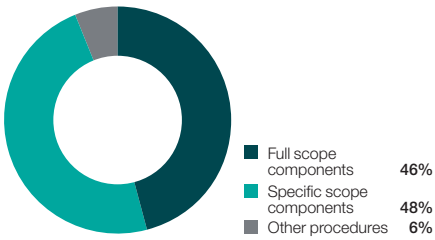
The remaining 11 components together represent 12% of the Group's pre-tax profit. For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

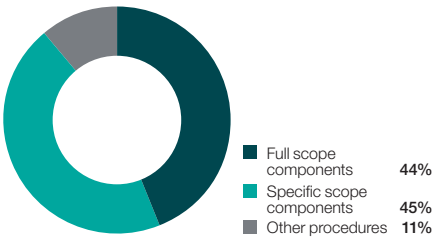
Profit before tax



Revenue



Total assets



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 operating under our instruction.

For the one specific scope component, 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 make sure 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. 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 team and any issues arising from their work, as well as meeting with Group and local management. In addition, we participated in planning and closing meetings and reviewed selected audit working papers. The primary team interacted regularly with the component team where appropriate during various stages of the audit 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 1.2 million, which is 5% of pre-tax profit.

We consider the basis of our materiality to be one of the principal considerations for shareholders of the Company in assessing the financial performance of the Group. It is linked to the key earnings measures discussed when the Group presents the financial results.

This provided a 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. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

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% of our planning materiality, namely GEL 0.6 million. We have set performance materiality at this percentage (which is the lowest in the range) due to it being our initial audit of the Group. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected misstatements does not exceed our materiality of GEL 1.2 million for the Group financial statements as a whole.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was as follows:

Georgia Healthcare Group PLC	GEL 0.5 million
JSC Medical Corporation EVEX	GEL 0.3 million
Unimed Kakheti LLC	GEL 0.3 million
All specific scope components	GEL 0.1 million to GEL 0.2 million

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 59 thousand, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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 2015 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' Responsibility Statement set out on page 97, 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.

Independent Auditor's Report continued

To the members of Georgia Healthcare Group PLC

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
- 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.

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	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 46, and longer-term viability, set out on page 46; 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 twelve 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.

Andrew McIntyre (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
7 April 2016

Notes:
1 The maintenance and integrity of the Georgia Healthcare Group PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Separate statement of financial position

As at 31 December 2015 (Thousands of Georgian Lari)

	Notes	31 December 2015
Assets		
Cash and cash equivalents	7	**81,722**
Investments in subsidiaries	1	**331,947**
Total assets		**413,669**
Equity		
Share capital	23	**47,842**
Additional paid-in capital		**366,265**
Retained earnings		**(438)**
Total equity		**413,669**

The financial statements on pages 104 to 147 were approved by the Board of Directors of Georgia Healthcare Group PLC on 7 April 2016 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
7 April 2016

Company registration number: 09752452

The accompanying notes on pages 111 to 147 form an integral part of these separate financial statements.

Separate statement of changes in equity

For the period 27 August 2015 to 31 December 2015 (Thousands of Georgian Lari)

		Attributable to the shareholders of the Company							
	Notes	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
27 August 2015		–	–	–	–	–	–	–	–
Profit for the period		–	–	–	–	(438)	(438)	–	(438)
Total comprehensive income		–	–	–	–	(438)	(438)	–	(438)
Issue of share capital		33,769	–	156,212	–	–	189,981	–	189,981
Proceeds from IPO	23	14,073	–	219,902	–	–	233,975	–	233,975
Transaction costs regonised directly in equity		–	–	(9,849)	–	–	(9,849)	–	(9,849)
31 December 2015		**47,842**	**–**	**366,265**	**–**	**(438)**	**413,669**	**–**	**413,669**

The accompanying notes on pages 111 to 147 form an integral part of these separate financial statements.

Separate statement of cash flows

For the period 27 August 2015 to 31 December 2015 (Thousands of Georgian Lari)

	Notes	Period ended 31 December 2015
Cash flows from/(used in) investing activities		
Investments in subsidiaries		**(142,147)**
Net cash from/(used in) investing activities		**(142,147)**
Cash flows from/(used in) financing activities		
Proceeds from issuance of ordinary shares		**181**
Proceeds from IPO	23	**233,975**
IPO related transaction costs		**(9,849)**
Net cash flows from from/(used in) financing activities		**224,307**
Effect of exchange rates changes on cash and cash equivalents		**(438)**
Net increase in cash and cash equivalents		**81,722**
Cash and cash equivalents, beginning		**–**
Cash and cash equivalents, end		**81,722**

The accompanying notes on pages 111 to 147 form an integral part of these separate financial statements.

Consolidated statement of financial position

As at 31 December (Thousands of Georgian Lari)

	Notes	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	7	**145,153**	32,784
Amounts due from credit institutions	8	**12,245**	13,954
Insurance premiums receivable	9	**20,663**	17,673
Receivables from healthcare services	10	**65,863**	43,265
Prepayments	14	**9,117**	4,875
Property and equipment	11	**444,718**	262,938
Goodwill and other intangible assets	12	**25,787**	10,123
Current income tax assets		**1,165**	2,139
Deferred income tax assets	13	**796**	703
Other assets	15	**32,773**	20,823
Total assets		**758,280**	409,277
Liabilities			
Accounts payable	18	**30,176**	8,591
Accruals for employee compensation		**17,679**	9,740
Payables for share acquisitions	20	**22,075**	13,165
Insurance contract liabilities	16	**21,351**	17,583
Borrowings	17	**117,225**	162,860
Debt securities issued	19	**35,537**	–
Current income tax liabilities		**5,228**	4,641
Deferred income tax liabilities	13	**19,306**	8,880
Other liabilities	21	**14,722**	11,506
Total liabilities		**283,299**	236,966
Equity			
Share capital	23	**47,842**	28,335
Additional paid-in capital	23	**332,180**	99,138
Treasury shares	23	**(1,272)**	–
Other reserves	23	**(15,289)**	(16,543)
Retained earnings		**55,520**	35,869
Total equity attributable to shareholders of the Company		**418,981**	146,799
Non-controlling interests		**56,000**	25,512
Total equity		**474,981**	172,311
Total equity and liabilities		**758,280**	409,277

The financial statements on pages 104 to 147 were approved by the Board of Directors of Georgia Healthcare Group PLC on 7 April 2016 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
7 April 2016

Company registration number: 09752452

The accompanying notes on pages 111 to 147 form an integral part of these separate financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December (Thousands of Georgian Lari)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Healthcare services revenue	24	**183,992**	126,884
Net insurance premiums earned	25	**55,073**	69,448
Revenue		**239,065**	196,332
Cost of healthcare services	26	**(103,054)**	(71,803)
Net insurance claims incurred	27	**(42,882)**	(54,263)
Costs of services		**(145,936)**	(126,066)
Gross profit		**93,129**	70,266
Other operating income	28	**4,200**	2,875
Salaries and other employee benefits	29	**(26,515)**	(19,804)
General and administrative expenses	30	**(10,517)**	(9,449)
Impairment of healthcare services, insurance premiums and other receivables	31	**(3,448)**	(5,134)
Other operating expenses	32	**(710)**	(1,892)
		(41,190)	(36,279)
EBITDA		**56,139**	36,862
Depreciation and amortisation	11, 12	**(12,665)**	(7,630)
Interest income	33	**2,678**	1,532
Interest expense	33	**(22,959)**	(14,338)
Net gains/(losses) from foreign currencies		**2,097**	(2,494)
Net non-recurring (expense)/income	34	**(1,682)**	578
Profit before income tax expense		**23,608**	14,510
Income tax benefit/(expense)	13	**9**	(1,246)
Profit and total comprehensive income for the year		**23,617**	13,264
Attributable to:			
– shareholders of the Company		**19,651**	10,207
– non-controlling interests		**3,966**	3,057
Earnings per share:			
– basic earnings per share	23	**0.15**	0.36
– diluted earnings per share	23	**0.15**	0.36

The accompanying notes on pages 111 to 147 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December (Thousands of Georgian Lari)

		Attributable to the shareholders of the Company							
	Notes	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2014		13,686	–	34,317	438	25,662	74,103	24,623	98,726
Profit for the year		–	–	–	–	10,207	10,207	3,057	13,264
Total comprehensive income		–	–	–	–	10,207	10,207	3,057	13,264
Issue of share capital		14,649	–	64,030	–	–	78,679	–	78,679
Acquisition of additional interest in existing subsidiaries	23	–	–	–	(16,981)	–	(16,981)	(13,024)	(30,005)
Non-controlling interests arising from business combinations		–	–	–	–	–	–	10,856	10,856
Share-based compensation		–	–	791	–	–	791	–	791
31 December 2014		28,335	–	99,138	(16,543)	35,869	146,799	25,512	172,311

		Attributable to the shareholders of the Company							
	Notes	Share capital	Treasury shares	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	23	–	–	–	1,254	–	1,254	(3,265)	(2,011)
Proceeds from IPO	23	14,073	–	219,902	–	–	233,975	–	233,975
Transaction costs recognised directly in equity	23	–	–	(11,836)	–	–	(11,836)	–	(11,836)
Issue of treasury shares	23	1,272	(1,272)	–	–	–	–	–	–
Holding company establishment	23	(9,284)	–	9,284	–	–	–	–	–
Loan conversion	23	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**

The accompanying notes on pages 111 to 147 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December (Thousands of Georgian Lari unless otherwise stated)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from/(used in) operating activities			
Healthcare services revenue received		**167,043**	100,037
Cost of healthcare services paid		**(98,750)**	(75,474)
Net insurance premiums received		**56,828**	72,398
Net insurance claims paid		**(36,695)**	(56,544)
Salaries and other employee benefits paid		**(25,827)**	(18,540)
General and administrative expenses paid		**(12,301)**	(10,972)
Acquisition costs paid		**(2,300)**	(2,702)
Other operating income received		**1,840**	3,726
Other operating expenses paid		**(3,538)**	(1,156)
Net cash flows from/(used in) operating activities before income tax		**46,300**	10,773
Income tax paid		**(932)**	(2,327)
Net cash flows from operating activities		**45,368**	8,446
Cash flows from/(used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	5	**(48,085)**	(22,631)
Acquisition of additional interest in existing subsidiaries		**(6,384)**	(30,005)
Purchase of property and equipment		**(69,607)**	(30,006)
Purchase of intangible assets		**(3,724)**	(430)
Interest income received		**1,953**	244
Withdrawals and redemptions of amounts due from credit institutions		**15,537**	–
Placements of amounts due from credit institutions		**(12,146)**	(5,348)
Proceeds from sale of property and equipment		**2,474**	2,158
Net cash from/(used in) investing activities		**(119,982)**	(86,018)
Cash flows from/(used in) financing activities			
Proceeds from issuance of ordinary shares		**–**	78,679
Proceeds from IPO	23	**233,975**	–
IPO related transaction costs	23	**(12,096)**	–
Proceeds from debt securities issued	19	**34,247**	–
Proceeds from borrowings		**40,612**	66,099
Repayment of borrowings		**(95,839)**	(20,491)
Proceeds from derivative financial instruments		**6,932**	–
Interest expense paid		**(24,555)**	(18,363)
Net cash flows from/(used in) financing activities		**183,276**	105,924
Effect of exchange rates changes on cash and cash equivalents		**3,707**	(39)
Net increase in cash and cash equivalents		**112,369**	28,313
Cash and cash equivalents, beginning	7	**32,784**	4,471
Cash and cash equivalents, end	7	**145,153**	32,784

The accompanying notes on pages 111 to 147 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 the 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. Refer to Note 23.

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 2015 and 31 December 2014 the ultimate parent of GHG is BGEO Group PLC ("BGEO"), incorporated in London, United Kingdom. GHG results are consolidated as part of BGEO's Accounts.

The Group's healthcare services business provides medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout Georgia. And 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.

In November 2015, Georgia Healthcare Group PLC, a public limited liability company newly incorporated in United Kingdom, successfully placed its shares on London Stock Exchange 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 Street, London W1K 5EH, United Kingdom.

As at 31 December 2015 and 31 December 2014 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 2015	31 December 2014
BGEO Group PLC	**65%**	88%
T Rowe LTD	**5%**	–
LGM Investments Ltd	**3%**	–
Wellington Management Company	**3%**	–
Others	**24%**	12%
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 2015	Ownership/Voting 2014	Industry	Date of incorporation	Date of acquisition
JSC Georgia Healthcare Group[3]	**100%**	–	Healthcare	29-Apr-15	Not Applicable
JSC My Family Clinic	[1]	100%	Healthcare	3-Oct-05	Not Applicable
JSC Insurance Company Imedi L	**100%**	100%	Insurance	31-Jul-14	31-Jul-14
LLC Biznes Centri Kazbegze	**100%**	100%	Other	22-Jun-10	24-Aug-11
JSC Medical Corporation EVEX	**100%**	100%	Healthcare	1-Aug-14	1-Aug-14
GNCo	**50%**	–	Healthcare	4-Jun-01	5-Aug-2015
LLC Nefrology Development Clinic Centre	**40%**	–	Healthcare	28-Sep-10	5-Aug-2015
High Technology Medical Centre, University Clinic	**50%**	–	Healthcare	16-Apr-99	5-Aug-2015
LLC Deka	**95%**	–	Healthcare	12-Jan-12	30-June-15
LLC Evex-Logistics	**100%**	–	Healthcare	13-Feb-15	Not Applicable
LLC Paediatrical Institute, Centre of Allergy and Rheumatology	**100%**	100%	Healthcare	6-Mar-00	19-Feb-14
LLC Referral Centre of Pathology	**100%**	100%	Healthcare	19-Dec-14	Not Applicable
JSC St. Nicholas Surgery Clinic	**93%**	93%	Healthcare	10-Nov-00	20-May-08
LLC Imereti Regional Clinical Hospital	[1]	100%	Healthcare	19-Jul-10	24-Sep-10
JSC Zugdidi multi profile Clinical Hospital “Republic”	[1]	100%	Healthcare	19-Oct-99	29-Nov-11
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	**67%**	67%	Healthcare	5-May-03	29-Nov-11
JSC Chkhorotskhu Regional Central Hospital	[1]	100%	Healthcare	30-Nov-99	29-Nov-11
LC Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia	**67%**	67%	Healthcare	15-Oct-04	29-Nov-11
LLC E.K. Pipia Central Hospital of Tsalenjikha	[1]	100%	Healthcare	1-Sep-99	29-Nov-11
LLC Martvili Multi profile Hospital	[1]	100%	Healthcare	17-Mar-00	29-Nov-11
LLC Abasha Outpatient-Polyclinic Union	[1]	100%	Healthcare	16-Mar-00	29-Nov-11
LLC Tskaltubo Regional Hospital	**67%**	67%	Healthcare	29-Sep-99	29-Nov-11
LLC Khobi Central Regional Hospital	[1]	100%	Healthcare	13-Jul-00	29-Nov-11
LLC Unimedi Achara	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Unimedi Samtskhe	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Unimedi Kakheti	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Caraps Medline	[2]	100%	Healthcare	26-Aug-98	26-Dec-13
NPO EVEX Learning Centre	**100%**	100%	Other	20-Dec-13	20-Dec-13
LLC Sunstone Medical	[2]	100%	Healthcare	9-Nov-12	21-May-14
LLC M. Iashvili Children Central Hospital	**67%**	67%	Healthcare	3-May-11	19-Feb-14
LLC Avante Hospital Management Group	[2]	100%	Healthcare	5-Aug-11	19-Feb-14
LLC Children New Clinic	[2]	75%	Healthcare	18-Jul-11	19-Feb-14
LLC New Life	[2]	100%	Healthcare	21-Sep-99	19-Feb-14
LLC Batumi Mother and Children Healthcare Centre	[2]	100%	Healthcare	19-Nov-04	19-Feb-14
LLC Traumatology	[1]	100%	Healthcare	20-Jul-11	30-Sep-14
LLC Catastrophe Medicine Paediatric Centre	**100%**	–	Healthcare	18-Jun-13	1-Mar-15

Associate	Ownership/Voting 2015	Ownership/Voting 2014	Industry	Date of incorporation	Date of acquisition
LLC Geolab	**25%**	–	Healthcare	3-May-11	5-Aug-2015

Notes:
1 The hospitals were merged with JSC Medical Corporation EVEX during the year ended 31 December 2015
2 The hospitals were merged with LLC Unimed Kakheti during the year ended 31 December 2015
3 The Company's investment in subsidiaries fully comprises investment in JSC Georgia Healthcare Group

2. Basis of preparation

Basis of preparation

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the separate 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, unless otherwise stated.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and office buildings 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

The 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 the foreseeable future 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 year ended 31 December 2015 the Group reconsidered the presentation of its consolidated statement of financial position for the purpose of more accurate presentation of receivables from healthcare services and payables for share acquisitions. The presentation of comparative figures has been adjusted to conform to the presentation of the current year amounts:

Consolidated statement of financial position	As previously reported	Reclassification	As reclassified
Receivables from healthcare services	43,814	(549)	43,265
Other assets	20,274	549	20,823
Payables for share acquisitions	13,694	(529)	13,165
Accounts payable	8,081	510	8,591
Other liabilities	11,487	19	11,506

3. Summary of significant accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except for the adoption of the following new Standards effective as of 1 January 2015 that did not have any impact on Group's financial statements:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions;
- Annual improvements 2010-2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16 and IAS 24;
- Annual improvements 2011-2013 Cycle that includes amendments to IFRS 3, IFRS 13 and IAS 40.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Basis of consolidation

The consolidated financial statements comprise the financial statements of GHG and its subsidiaries as at 31 December 2015. 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.

The Group reassesses 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.

Notes to consolidated financial statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Basis of consolidation continued

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 reassesses 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 reassessment 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 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 remeasured 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 healthcare services 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.

Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

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. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 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. The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated profit or loss.

3. Summary of significant accounting policies continued

Assets 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.

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.

Notes to consolidated financial statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Fair value measurement

The Group revalues derivatives at fair value at each balance sheet date and investment property, land and office buildings at each balance sheet date if their fair value differs materially from carrying value. Fair values of financial instruments measured at amortised cost are disclosed in Note 38.

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 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 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 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.

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
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 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.

3. Summary of significant accounting policies continued

Inventory

Inventory comprises of medical supplies and nonmedical supplies and is valued at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis 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.

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 licences.

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. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of such assets of between four to 10 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.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

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.

Notes to consolidated financial statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

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 include both equity-settled and cash-settled transactions. Share-based compensation plans are recognised as either equity (in case of equity-settled plans) or liability (in case of cash-settled plans). The former is credited directly to equity, while the latter is included in accruals for employee compensation.

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.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date based on market quotations. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in salaries and other employee benefits.

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

Healthcare services revenue

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 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 a 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).

Healthcare services revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and includes the following components:

- Healthcare services revenue from 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.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, 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.

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 incepted 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 a 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.

3. Summary of significant accounting policies continued

Income and expense recognition continued

Cost of healthcare services

Cost of healthcare services rendered 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.

Net claims incurred

Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

EBITDA

The Group separately presents EBITDA on the face of statement of comprehensive income. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's Profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income.

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 an income or expense triggered by or originated from an extraordinary 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 2015 and 31 December 2014 were 2.3949 and 1.8636 Georgian Lari to 1 US Dollar, respectively.

Standards and interpretations that are issued but not yet effective

The standards and interpretations relevant to the Group that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. 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.

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 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.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will 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 will be 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 will not have any impact on the Group's consolidated financial statements.

Notes to consolidated financial statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Standards and interpretations that are issued but not yet effective continued

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements 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
- 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 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.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a right of use asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is currently assessing the impact of IFRS 16 on its financial statements.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. 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.

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.

(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.

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.

4. Significant accounting judgements and estimates

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the period. Although the estimates are based on management's best knowledge and judgement of current facts as at the reporting date, the actual outcome may differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

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.

For collective assessment purposes the 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.

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 2015 was GEL 7,829 (2014: GEL 5,157). Refer to Note 10.

Goodwill impairment test

Significant accounting judgments and estimates related to the goodwill impairment test are presented in Note 12.

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 the management judgement is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. For specific assessment purposes the management takes into account financial performance including key ratios and 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 2015 was GEL 2,692 (2014: GEL 2,255). Refer to Notes 9 and 31.

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 medical business is free from taxation in accordance with Georgian tax legislation. Judgement 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 2015 was GEL 1,650 (2014: GEL 1,603). Refer to Note 16.

Notes to consolidated financial statements continued

(Thousands of Georgian Lari unless otherwise stated)

5. Business combinations

Acquisitions in year ended 31 December 2015

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 provisional fair values of identifiable assets and liabilities of Deka as at the date of acquisition were:

	Provisional 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 given[3]	**28,842**

Notes:

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, owners of Deka encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase. Refer to Note 34.

3 Consideration comprised GEL 28,842, which consists of a 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.

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 net assets presented above are estimated provisionally as at the issue date. The Group continues 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 "Business Combinations" (IFRS 3).

The Group has elected to measure the non-controlling interests in Deka at the non-controlling interests' proportionate share of the Deka's identifiable net assets.

5. Business combinations continued

Acquisitions in year ended 31 December 2015 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 the 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 given[2]	**1,000**

Notes:
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 outflow 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.

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 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 the 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 the tax legislation purposes goodwill is recognised on a stand-alone balance 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 the tax legislation purposes, full amount of the goodwill is recognised as an intangible asset per the tax code and is subsequently amortised applying the algorithm provided by the tax code. Such amortisation is fully deductible for the 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 2015 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 provisional fair values of identifiable assets and liabilities of the GNCo as at the date of acquisition were:

	Provisional fair value recognised on acquisition
Assets	
Cash and cash equivalents	427
Receivables from healthcare services[1]	8,209
Prepayments	14
Property and equipment	81,395
Intangible assets	16
Other assets	4,164
Total assets	**94,225**
Liabilities	
Borrowings	15,088
Accounts payable	9,833
Accruals for employee compensation	5,372
Deferred income tax liabilities	6,257
Other liabilities	2,101
Total liabilities	**38,651**
Total identifiable net assets	**55,574**
Non-controlling interests	28,018
Goodwill arising on acquisition	11,429
Consideration given[2]	**38,985**

Notes:

1 The fair value of the receivables from healthcare services amounted to GEL 8,209. The gross amount of receivables is GEL 17,765. GEL 9,556 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 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.

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 year, the Group would have recorded GEL 263,288 and GEL 26,710 of revenue and profit respectively.

The net assets presented above are estimated provisionally as at the issue date. The Group continues 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 "Business Combinations" (IFRS 3).

The Group has elected to measure the non-controlling interests in GNCo at the non-controlling interests' proportionate share of the GNCo's identifiable net assets.

The primary factor that contributed to the cost of the 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 the tax legislation purposes goodwill is recognised on a stand-alone balance 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 the tax legislation purposes, full amount of the goodwill is recognised as an intangible asset per the tax code and is subsequently amortised applying the algorithm provided by the tax code. Such amortisation is fully deductible for the tax purposes.

6. Segment information

For management purposes, the Group is organised into two operating segments based on the products and services – Healthcare services and Medical insurance. All revenues, expenses, assets and liabilities of the Group result from 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.

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.

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 2015 or 31 December 2014.

Statement of comprehensive income and selected items from the statement of financial position by segments are presented below:

	Year ended 31 December 2015			
	Healthcare services	Medical insurance	Intersegment transactions and balances	Total
Healthcare services revenue	191,424	–	(7,432)	183,992
Net insurance premiums earned	–	55,256	(183)	55,073
Revenue	191,424	55,256	(7,615)	239,065
Cost of healthcare services	(107,291)	–	4,237	(103,054)
Net insurance claims incurred	–	(46,076)	3,194	(42,882)
Costs of services	(107,291)	(46,076)	7,431	(145,936)
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

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(Thousands of Georgian Lari unless otherwise stated)

6. Segment information continued

	Year ended 31 December 2014			
	Healthcare services	Medical insurance	Intersegment transactions and balances	Total
Healthcare services revenue	145,349	–	(18,465)	126,884
Net insurance premiums earned	–	69,759	(311)	69,448
Revenue	145,349	69,759	(18,776)	196,332
Cost of healthcare services	(83,298)	–	11,495	(71,803)
Net insurance claims incurred	–	(61,233)	6,970	(54,263)
Costs of services	(83,298)	(61,233)	18,465	(126,066)
Gross profit	62,051	8,526	(311)	70,266
Other operating income	2,722	153	–	2,875
Salaries and other employee benefits	(16,055)	(4,060)	311	(19,804)
General and administrative expenses	(6,933)	(2,516)	–	(9,449)
Impairment of healthcare services, insurance premiums and other receivables	(4,209)	(925)	–	(5,134)
Other operating expenses	(1,785)	(107)	–	(1,892)
Operating expenses	(28,982)	(7,608)	311	(36,279)
EBITDA	35,791	1,071	–	36,862
Depreciation and amortisation	(6,998)	(632)	–	(7,630)
Interest income	297	2,257	(1,022)	1,532
Interest expense	(13,435)	(1,925)	1,022	(14,338)
Net gains/(losses) from foreign currencies	(2,820)	326	–	(2,494)
Net non-recurring income	578	–	–	578
Profit before income tax expense	13,413	1,097	–	14,510
Income tax expense	(1,145)	(101)	–	(1,246)
Profit and total comprehensive income for the year	12,268	996	–	13,264
Assets and liabilities				
Total assets	355,043	62,910	(8,676)	409,277
Total liabilities	200,414	45,228	(8,676)	236,966
Other segment information				
Property and equipment	259,205	3,733	–	262,938
Intangible assets	1,193	515	–	1,708

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2015	31 December 2014
Current and on-demand accounts with banks	**145,095**	32,643
Cash on hand	**58**	141
Total cash and cash equivalents	**145,153**	32,784

Cash and cash equivalents of Imedi L on a stand-alone basis are GEL 6,069 (2014: GEL 7,183). 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 957 (2014: GEL 571). 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 of current accounts with banks of GEL 81,722.

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2015	31 December 2014
Time deposits with banks, foreign currency	**6,203**	8,426
Time deposits with banks, local currency	**6,042**	5,528
Total amounts due from credit institutions	**12,245**	13,954

As at 31 December 2015 amounts due from credit institutions are represented by short (remaining maturity from reporting date of 1 to 12 months) and medium-term placements with banks and earn annual interest of 1.11% to 14.1% (2014: 0.54% to 12%). As at 31 December 2015 amounts due from credit institutions include GEL 2,142 (2014: GEL 1,686) of restricted cash under the export facility agreement with ING Bank N.V. There was no restricted cash in 2015 with JSC Bank of Georgia (2014: GEL 6,740 of restricted cash was under the agreement with JSC Bank of Georgia).

9. Insurance premiums receivables

Insurance premiums receivables comprise:

	31 December 2015	31 December 2014
Insurance premiums receivable from policyholders	**23,355**	19,928
Less – Allowance for impairment (Note 31)	**(2,692)**	(2,255)
Total insurance premiums receivables, net	**20,663**	17,673

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2015 and 31 December 2014.

10. Receivables from healthcare services

Receivables from healthcare services comprise:

	31 December 2015	31 December 2014, as reclassified
Receivables from State	**58,126**	34,048
Receivables from individuals and other	**8,797**	8,364
Receivables from insurance companies	**6,769**	6,010
	73,692	48,422
Less – Allowance for impairment	**(7,829)**	(5,157)
Total receivables from healthcare services, net	**65,863**	43,265

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2015 and 31 December 2014.

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 inpatient and limited outpatient healthcare was offered free of charge for individuals who were previously not covered by 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;
- 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 15,000 Lari 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;
- 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 types of service:
  - 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;
  - For elective inpatient 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;

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 inpatient services	70/100% with a limit for a single accident of 15,000 Lari
Scheduled surgeries and associated tests	70%; annual limit – 15,000 Lari
Treatment of oncology diseases	80%; annual limit – 12,000 Lari
Childbirth	500 Lari; caesarean section – 800 Lari

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(Thousands of Georgian Lari unless otherwise stated)

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 2014	2,031	129,218	6,172	2,421	38,286	1,504	2,483	1,317	183,432
Acquisition through business combinations	–	51,839	589	797	5,280	306	–	141	58,952
Additions	–	27,427	1,229	1,221	6,029	998	742	2,995	40,641
Disposals	–	(59)	(24)	(198)	(598)	(46)	(1,165)	–	(2,090)
Transfer	–	840	(19)	–	19	–	(760)	(80)	–
31 December 2014	2,031	209,265	7,947	4,241	49,016	2,762	1,300	4,373	280,935
Acquisition through business combinations (Note 5)	–	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)
Transfer	(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**

	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 2014	100	1,388	1,142	1,317	6,479	303	122	–	10,851
Depreciation charge	35	1,243	475	510	4,881	178	85	–	7,407
Disposals	–	–	(97)	(90)	(65)	(9)	–	–	(261)
31 December 2014	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)
Transfer	(2)	49	30	22	(64)	4	(39)	–	–
31 December 2015	**153**	**6,326**	**2,552**	**3,019**	**16,492**	**719**	**233**	**–**	**29,494**
Net book value:									
1 January 2014	1,931	127,830	5,030	1,104	31,807	1,201	2,361	1,317	172,581
31 December 2014	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**

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 2015 was GEL 322,076 (2014: GEL 212,903).

The Group engaged an independent appraiser to determine the fair value of its land and office buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Group's buildings was dated 31 December 2015. If the land and office buildings were measured using the cost model, the carrying amounts of the buildings as at 31 December 2015 and 31 December 2014 would be as follows:

	31 December 2015	31 December 2014
Cost	**3,521**	1,935
Accumulated depreciation and impairment	**(151)**	(133)
Net carrying amount	**3,370**	1,802

12. Goodwill and other intangible assets

The movements in goodwill were as follows:

	Goodwill
31 December 2014	8,415
Acquisition through business combinations (Note 5)	12,298
31 December 2015	**20,713**

12. Goodwill and other intangible assets continued

Other intangible assets comprise of licenses and computer software with carrying value as at 31 December 2015 of GEL 5,074 (2014: GEL 1,708). As at 31 December 2015 cost of other intangible assets equalled GEL 6,119 (31 December 2014: GEL 2,379) and accumulated amortisation equalled GEL 1,045 (31 December 2014: GEL 671). The Group did not identify impairment of intangible assets as at 31 December 2015.

	Effective annual growth rate in three-year financial budgets	WACC applied for impairment	**31 December 2015**	31 December 2014
JSC Insurance Company Aldagi	10.00%	14.9%	**3,260**	3,260
JSC My Family Clinic	10.00%	14.9%	**508**	508
JSC Insurance Company Partner	10.00%	14.9%	**103**	103
JSC Insurance Company Imedi L International	10.00%	14.9%	**99**	99
Caraps Medline	10.00%	14.9%	**3,534**	3,534
Traumatology	10.00%	14.9%	**911**	911
GNCo	10.00%	14.9%	**11,429**	–
LLC Catastrophe Medicine Paediatric Centre	10.00%	14.9%	**869**	–
Total			**20,713**	8,415

In calculation of Weighted Average Cost of Capital ("WACC") following assumptions were made:

- A moderate, stable 3% growth of real GDP was assumed based on the Government's forecasts.
- Further synergies between insurance and healthcare businesses will increase cost efficiency and further improve operating leverage.
- Growth of other (non-state funded) insurance business lines through an increased market demand and economic growth.

Management believes that reasonably possible changes in key assumptions used to determine the recoverable amount CGUs will not result in an impairment of goodwill.

The Group performs goodwill impairment test annually as at 31 December. The latest impairment test performed by the Group was as at 31 December 2015. The Group did not identify impairment of goodwill as at 31 December 2015.

The recoverable amounts of the cash-generating units have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period.

13. Taxation

The corporate income tax expense comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax charge	**2,113**	2,815
Deferred tax benefit – origination and reversal of temporary differences	**(2,122)**	(1,569)
Income tax (benefit)/expense	**(9)**	1,246

Georgian legal entities must file individual tax declarations. The statutory corporate tax rate was 15% in year ended 31 December 2015 and 31 December 2014.

The effective income tax rate differs from the statutory income tax rates. Reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
IFRS income before tax	**23,608**	14,510
Statutory tax rate	**15%**	15%
Theoretical income tax expense at the statutory rate	**3,541**	2,177
Correction of prior year declaration	**(1,588)**	–
Non-taxable income	**(2,702)**	(1,034)
Non-deductible expenses	**740**	103
Income tax (benefit)/expense	**(9)**	1,246

Non-taxable income mainly comprises amount of utilised investment tax credit. Refer to Note 4.

The Group has unrecognised deferred tax asset originating from tax loss carryforward 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 to utlise the tax loss. Accordingly, in the absence of a recognition of a deferred tax asset, there is no impact on the financial statements for the year ended 31 December 2015 of the future reductions in the UK corporation tax rate.

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(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 2014	In the income statement	Acquired through business combination	31 December 2014	In the income statement	Acquired through business combination	**31 December 2015**
Tax effect of deductible temporary differences							
Tax loss carried forward	1,329	1,806	–	3,135	1,012	–	**4,147**
Insurance premiums receivables	597	108	–	705	415	–	**1,120**
Receivable from healthcare services	498	300	–	798	732	–	**1,530**
Accruals for employee compensation	283	150	–	433	433	988	**1,854**
Borrowings	–	–	–	–	23	–	**23**
Other assets	142	214	–	356	(42)	–	**314**
Deferred tax assets	2,849	2,578	–	5,427	2,573	988	**8,988**
Tax effect of taxable temporary differences:							
Property and equipment	4,428	1,141	6,908	12,477	1,054	13,443	**26,974**
Debt securities issued	–	–	–	–	117	–	**117**
Insurance contract liabilities	727	(721)	–	6	37	–	**43**
Intangible assets	350	(86)	–	264	91	–	**355**
Other liabilities	182	675	–	857	(848)	–	**9**
Deferred tax liabilities	5,687	1,009	6,908	13,604	451	13,443	**27,498**
Net deferred tax (liability) asset	(2,838)	1,569	(6,908)	(8,177)	2,122	(12,455)	**(18,510)**
Deferred income tax assets	427	276	–	703	(895)	988	**796**
Deferred income tax liabilities	(3,265)	1,293	(6,908)	(8,880)	3,017	(13,443)	**(19,306)**

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 2015	31 December 2014, as reclassified
Prepayments for property and equipment and intangible assets	**6,119**	3,267
Prepayments for operating expenses	**2,998**	1,608
Total prepayments	**9,117**	4,875

15. Other assets

Other assets comprise:

	31 December 2015	31 December 2014, as reclassifiied
Loans issued	**10,314**	7,793
Inventory	**11,056**	7,041
Receivables originated from letters of credit	**3,086**	–
Derivative financial assets	**–**	2,054
Prepaid operating taxes	**1,401**	1,118
Investment property	**–**	1,138
Non-medical receivables	**4,501**	–
Deferred acquisition costs	**1,050**	242
Other	**2,948**	2,552
Total other assets, gross	**34,356**	21,938
Less – allowance for impairment	**(1,583)**	(1,115)
Total other assets, net	**32,773**	20,823

As at 31 December 2015 and 31 December 2014 loans issued by the Group consist mainly of the loans granted to the Block Georgia Group and Poti Regional Central Hospital. Loans issued are fully collateralised with real estate collateral. The value of pledged collateral exceeds the amount of loans issued.

16. Insurance contract liabilities

Insurance contract liabilities comprise:

	31 December 2015	31 December 2014
Insurance contracts liabilities		
– Unearned premiums reserve (UPR)	**17,985**	14,607
– Reserves for claims reported but not settled (RBNS)	**1,716**	1,373
– Reserves for claims incurred but not reported (IBNR)	**1,650**	1,603
Total insurance contracts liabilities	**21,351**	17,583

Movements in the insurance contract liabilities during the following years can be analysed as follows:

	31 December 2015	31 December 2014
At 1 January	**17,583**	50,335
Premiums written during the year	**61,648**	42,293
Premiums earned during the year	**(58,369)**	(72,321)
Claims incurred during the year	**42,882**	54,270
Claims paid during the year	**(42,393)**	(56,994)
At 31 December	**21,351**	17,583

17. Borrowings

Borrowings comprise:

	31 December 2015	31 December 2014
Borrowings from local financial institutions	**97,789**	148,546
Borrowings from foreign financial institutions	**14,423**	13,889
Borrowings from shareholders	**5,013**	–
Overdrafts from local commercial banks	**–**	425
Total borrowings	**117,225**	162,860

In the year ended 31 December 2015 borrowings from local financial institutions had an average interest rate of 13.75% per annum (2014: 11.15%), maturing on average in 1,713 days (2014: 1,906 days). The only borrowings from international financial institution had an interest rate of Libor + 1.9% per annum (2014: Libor + 1.9%), maturing in 1,352 days (2014: 1,717 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 2015 and 31 December 2014 Group complied with all these lender covenants. The Group does not have any undrawn loan commitments.

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(Thousands of Georgian Lari unless otherwise stated)

18. Accounts payable

Accounts payable comprise:

	31 December 2015	31 December 2014, as reclassified
Accounts payable for healthcare materials and supplies	**20,281**	6,582
Accounts payable for healthcare services	**3,340**	1,021
Accounts payable for other services	**5,311**	467
Other accounts payable	**1,244**	521
Total accounts payable	**30,176**	8,591

19. Debt securities issued

In June 2015 EVEX completed issuance of two-year 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.

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 given, payment of which is deferred for a specified period of time in the future and, usually, is contingent upon certain events or conditions precedent or covenants established by the buyer. These conditions are: (i) The audited total equity balance in accordance with IFRS should not be materially different compared to management accounts existing as at the date of deal; (ii) Material unrecorded liabilities should not be identified; (iii) Any liabilities of the acquiree and/or its related parties towards the acquirer should not remain unpaid for greater than 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 2015 payable for share acquisitions of the Group comprises amounts payable for and deriving from the acquisitions of GNCo of GEL 21,513 and Deka of GEL 562. As at 31 December 2014 payable for share acquisitions of the Group comprises amounts payable for and deriving from the acquisitions of Avante Hospital Management Group LLC of GEL 7,902 and Traumatology LLC of GEL 1,536 and of the additional interest purchased in JSC My Family Clinic. The outstanding payable for the acquisition of an additional interest purchased in JSC My Family Clinic as at 31 December 2014 represented GEL 3,727.

21. Other liabilities

Other liabilities comprise:

	31 December 2015	31 December 2014, as reclassified
Payable for purchase of property and equipment	**5,295**	3,747
Provision for ongoing litigations	**1,533**	–
Insurance claims payable	**2,177**	2,745
Operating taxes payable	**3,881**	1,412
Payable for professional services	**232**	716
Other	**1,604**	2,886
Total other liabilities	**14,722**	11,506

Provision for ongoing litigations results from the acquired company GNCo. The provision was created on acquisition and was taken into account in the process of determining consideration for the business combination upon the company acquisition. There were no changes in provisions for ongoing litigations since acquisition date.

22. 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.

22. Commitments and contingencies continued

Financial commitments and contingencies

The Group's financial commitments and contingencies comprise the following:

	31 December 2015	31 December 2014
Capital commitments	**17,176**	11,997
Operating lease commitments		
– Leases expiring not later than 1 year	**3,639**	990
– Leases expiring later than 1 year but not later than 5 years	**16,278**	1,127
Total financial commitments and contingencies	**37,093**	14,114

In year ended 31 December 2015 as well as in year ended 31 December 2014 capital commitments comprised of construction contracts for hospitals in Samtskhe and the oncology centre in Kutaisi. The commitments and contingencies fully result from subsidiaries. The Company does not have any commitments or contingencies. The Group did not have contingent rents or sublease payments. The amount of lease recognised in expense is disclosed in Note 30. The Company does not have any lease commitments.

23. Equity

On 27 August 2015, upon establishment of GHG, classification of the combined entities' equity captions was aligned with that of GHG. As a result of the transaction the Group's share capital decreased by GEL 9,284 whilst additional paid in capital increased by the same amount. Included within the additional paid in capital is GEL 2,388 relating to share based compensation.

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 2015 the following changes occurred in the amount of issued shares:

	Number of ordinary shares	Amount of ordinary shares
1 January 2014	13,685,746	13,686
Issue of share capital	14,649,083	14,649
31 December 2014	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**

As at 31 December 2015 the total authorised shares of GHG amounted to 131,681,820 (2014: 28,334,829) at par value of 0.1 British Pound all of which were fully paid.

The number of treasury shares held by the Company as at 31 December 2015 comprised 3,500,000. These shares were purchased on 9 November 2015 in the open market for GEL 1,272. The treasury shares are kept by the Company for the purposes of its future employee share-based compensation.

Share capital of the Group 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) Group share capital is denominated in GBP and shareholders are entitled to dividends in GBP. No dividend were announced or distributed in 2015 or 2014 year.

Proceeds from IPO equaled GEL 233,975. The Group has 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 of 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 IPO including audit and consultancy expenses as well as investment bankers' fees of GEL 10,578, representative and other individually immaterial expenses of GEL 291 and IPO transaction cost related tax effect of GEL 265, deducted from the transaction costs.

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 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.

Earnings per share are calculated based on the assumption that GHG existed from 1 January 2015 and therefore the shares, although issued in November 2015, are assumed to be outstanding from beginning of the year. For the purpose of calculating both basic and diluted earnings per share the Group used Profit and total comprehensive income for the year attributable to shareholders of the Company of GEL 19,651 (2014: GEL 10,207) as a numerator and number of shares outstanding as at 31 December 2015 of 128,181,820 (31 December 2014: 28,334,829) as a denominator.

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(Thousands of Georgian Lari unless otherwise stated)

23. Equity continued

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 decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. As at 31 December 2015 revaluation reserve for property and equipment equalled GEL 438 (31 December 2014: 438).

Gains (losses) from sale/acquisition of shares in existing subsidiaries

In February 2015, JSC Georgia Healthcare Group acquired additional 25% stake in LLC Children New Clinic, an existing subsidiary of which the Group previously owned 75% stake. Acquisition of additional interest in existing subsidiaries in 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 from the acquisition was GEL 1,254.

In April 2014, JSC Georgia Healthcare Group acquired an additional 49% stake in JSC My Family Clinic, an existing subsidiary of which the Group previously owned by 51%, from Block-Invest LLC. Acquisition of additional interest in existing subsidiaries mostly derives from this transaction. The consideration paid by the Group comprised GEL 30,005 for the purchase of the non-controlling interest of GEL 13,024. The resulting loss from the acquisition was GEL 16,981.

As at 31 December 2015 Gains (losses) from sale/acquisition of shares in existing subsidiaries equalled GEL (15,727) (31 December 2014: GEL (16,981).

24. Healthcare services revenue

Healthcare services revenue comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Healthcare services revenue from State	**148,855**	82,729
Healthcare services revenue from out-of-pocket and other	**34,801**	32,623
Healthcare services revenue from insurance companies	**3,944**	13,348
Less: Corrections and rebates	**(3,608)**	(1,816)
Total healthcare services revenue	**183,992**	126,884

Healthcare services revenue from State represents the revenue through UHC. A full description of the programme is provided in Note 10 above.

25. Net insurance premiums earned

Net insurance premium earned comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Gross premiums written	**61,648**	42,294
Change in unearned premiums reserve	**(3,280)**	29,984
Less: Acquisition costs	**(3,295)**	(2,830)
Total net insurance premiums earned	**55,073**	69,448

26. Cost of healthcare services

Cost of healthcare services comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Cost of salaries and other employee benefits	**(65,329)**	(46,504)
Cost materials and supplies	**(27,948)**	(15,636)
Cost of utilities and other	**(7,450)**	(5,769)
Cost of providers	**(2,327)**	(3,894)
Total cost of healthcare services	**(103,054)**	(71,803)

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 2015 to GEL 26,515 (year ended 31 December 2014: GEL 19,804) 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 2015 amounted to GEL 91,844 (year ended 31 December 2014: GEL 66,308).

27. Net Insurance claims incurred

Net insurance claims incurred comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Insurance claims paid	**(42,393)**	(56,987)
Change in insurance contract liabilities	**(489)**	2,724
Net insurance claims incurred	**(42,882)**	(54,263)

28. Other operating income

Other operating income comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Rental income	**876**	524
Gain from re-sale of medicines	**344**	679
Revenues from factoring	**66**	316
Gain from sale of equipment	**171**	926
Other	**2,743**	430
Total other operating income	**4,200**	2,875

In the year ended 31 December 2015 the "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 provision of a GEL 1,060, revenue from medical trials of GEL 168 and the gain from sale of building of GEL 106.

29. Salaries and other employee benefits

Salaries and employee benefits comprise:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and other benefits	**(23,453)**	(17,226)
Cash bonuses	**(1,973)**	(1,658)
Share-based compensation	**(1,089)**	(920)
Total salaries and other employee benefits	**(26,515)**	(19,804)

Average number of full time employees, including those whose salaries are included in cost of healthcare services, in 2015 equalled 8,880 (31 December 2014: 7,183).

30. General and administrative expenses

General and administrative expenses comprise:

	Year ended 31 December 2015	Year ended 31 December 2014
Office supplies	**(2,335)**	(1,733)
Operating lease expenses	**(2,369)**	(2,353)
Communication	**(963)**	(981)
Professional services	**(360)**	(1,038)
Representative expense	**(732)**	(354)
Marketing and advertising	**(891)**	(1,030)
Travel	**(608)**	(217)
Bank fees and commissions	**(227)**	(237)
Security	**(103)**	(190)
Other	**(1,929)**	(1,316)
Total general and administrative expenses	**(10,517)**	(9,449)

In years ended 31 December 2015 and 31 December 2014 other general and administrative expenses mainly comprised of training, property tax, property insurance and other operating tax expenses.

In year ended 31 December 2015 auditors' remuneration equaled GEL 4,911 out of which audit fees comprised GEL 1,810 and non-audit services related to IPO comprised GEL 3,101. Out of the total 2015 auditors' remuneration, GEL 360 was included in general and administrative expenses and the rest was debited directly to equity as IPO related transaction costs. In the year ended 31 December 2014 auditors' remuneration comprised GEL 711 which was fully included in general and administrative expenses.

31. 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 2014	1,645	3,563	5,208
Impairment charge	925	4,209	5,134
Write-off	(315)	(1,500)	(1,815)
31 December 2014	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**

Allowances for impairment of assets are deducted from the gross carrying amounts of the related assets.

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(Thousands of Georgian Lari unless otherwise stated)

32. Other operating expenses

Other operating expenses comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Cost of realised medicine	**(288)**	(617)
Loss from equipment sold	**(73)**	(433)
Expense on factoring	**(56)**	(273)
Cost of realised stationery	**(29)**	(16)
Fixed assets, prepayments and other assets write-off	**–**	(53)
Other	**(264)**	(500)
Total other operating expenses	**(710)**	(1,892)

33. Interest income and interest expense

Interest income and interest expense comprise:

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income		
Interest income from loans issued	**1,481**	686
Interest income from amounts due from credit institutions	**1,197**	846
Total interest income	**2,678**	1,532
Interest expense		
Interest expense on borrowings	**(21,966)**	(14,338)
Interest expense on debt securities issued	**(993)**	–
Total interest expense	**(22,959)**	(14,338)

As at 31 December 2015 the amount of borrowing costs capitalised in relation to qualifying items of property and equipment comprise GEL 1,063 (year ended 31 December 2014: GEL 642).

34. Net non-recurring (expense)/income

Net non-recurring expense for year ended 31 December 2015 comprise:

- 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;
- GEL 51 loss from other individually insignificant transactions.

Net non-recurring income for year ended 31 December 2014 comprise:

- GEL 1,004 gain from a bargain purchase of Avante management Group LLC;
- GEL 664 loss from shortage of medical stock, recognised as a result of stock counting in Unimedi Achara LLC;
- GEL 329 gain from disposal of a hospital building owned by Avante Management Group LLC;
- GEL 91 loss from other insignificant transactions.

35. Share-based compensation

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). It was set up by the Group's ultimate parent, BGEO and the Group's share-based compensation is reviewed, approved, awarded and then settled by BGEO, through the EECP and the Trustee.

During 2015 and 2014 different individuals from the top management of BGEO acted as CEO of the Group. Respective individuals are referred to as "the CEO" in the paragraphs that follow. Due to the fact that the Group does not expect payments of any dividends in the subsequent years, they were not incorporated into the measurement of fair value of the plans.

GHG plans

In January 2015 the Board of Directors of BGEO resolved to award 175,000 ordinary shares of GHG to the CEO of the Group. In April 2015 the Board of Directors of BGEO resolved to award 159,000 ordinary shares of GHG to three executives. The shares awarded to a four-year vesting period, with continuous employment being the only vesting condition for both awards.

The Group considers 1 January 2015 and 29 April 2015 as the grant dates for the awards of CEO and other executives, respectively. The Group estimates that the fair value of the shares awarded was GEL 2.18 per share as of respective grant dates. Respective fair value was estimated using appropriate valuation techniques based on market and income approaches. As at 31 December 2015, no shares have been vested.

35. Share-based compensation continued

BGEO plans

In March 2015 the Board of Directors of BGEO resolved to award 24,576 ordinary shares of BGEO to six executives of the Group. The shares awarded to 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 values were identified based on market prices on grant dates. As at 31 December 2015, no shares have been vested.

In February 2014 the Board of Directors of BGEO resolved to award 18,000 ordinary shares of BGEO to the CEO of the Group and 3,150 ordinary shares of BGEO to three executives. The shares awarded to CEO are subject to a two-year vesting period, whilst the shares awarded to the other three executives are subject to a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was GEL 67.90 per share. The fair values were identified based on market prices on grant dates. As at 31 December 2015, one third of all shares have been vested.

In February 2013 the Board of Directors of BGEO resolved to award 20,000 ordinary shares of BGEO to the CEO of the Group and 3,000 ordinary shares of BGEO to the Group's two executives. The shares awarded to the CEO are subject to a two-year vesting period, whilst the shares awarded to the other two executives are subject to a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2013 as the grant date. The Group estimates that the fair value of the shares awarded on 15 February 2013 was GEL 35.56 per share.

Additionally, in February 2013 the CEO of the Group signed a new three-year fixed contingent share-based compensation agreements with BGEO for the total of 75,000 ordinary shares of BGEO. The total amount of shares allocated to each executive will be awarded in three equal instalments during the three consecutive years starting January 2014, of which each award will be subject to a four-year vesting period. The Group considers 18 February 2013 as the grant date for the awards. The Group estimates that the fair value of the shares on 18 February 2013 was GEL 35.45.

The fair values were identified based on market prices on grant dates. As at 31 December 2015, two third of all shares have been vested.

36. 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 for the insurance arm;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

Some operations of the Group are subject to local regulatory requirements 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 2015 and year ended 31 December 2014 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. Amount of such minimal liquid assets is called "Statutory Reserve".

The Statutory Reserve requirement for Imedi L as at 31 December 2015 equals to the minimal amount of liquid assets of GEL 9,565 (2014: GEL 5,714). The insurance company is fully compliant with the requirement by holding actual GEL 10,607 (2014: GEL 7,379) of total eligible liquid assets.

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(Thousands of Georgian Lari unless otherwise stated)

37. 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

Management Board

During 2014 year Aldagi had the responsibility to monitor and manage the entire 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. During the 2015 year, these functions were carried out by management of the Group.

Internal Audit

During the 2014 year risk management processes throughout the Group were audited annually by the internal audit function of Aldagi that examined both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory Board. During the 2015 year, these functions were carried out by the internal audit function of the Group.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is the Base Case (forecast under normal business conditions) and the other two are the Troubled and Distressed Scenarios, which are worse and the worst-case scenarios, respectively, that would arise in the event that extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks 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 the 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 2015	31 December 2014
Loss ratio	**83.4%**	87.7%
Combined ratio	**96.7%**	99.5%

37. Risk management continued

Insurance risk continued

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 2015	Year ended 31 December 2014
Healthcare	**2,412**	2,481
Term Life	**721**	348
Travel	**222**	146
Personal accident	**11**	1
Total	**3,366**	2,976

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 an exhibit 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 Georgian Lari at the rate of exchange that applied at the end of the accident year:

Accident year	31 December 2015	31 December 2014	31 December 2013
At the end of accident year	**46,247**	58,190	87,734
One year later	**–**	58,209	87,929
Two years later	**–**	–	87,929
Three years later	**–**	–	–
Current estimation of cumulative claims incurred	**46,247**	58,209	87,929
At the end of accident year	**(42,881)**	(55,225)	(79,100)
One year later	**–**	(58,180)	(87,835)
Two years later	**–**	–	(87,835)
Three years later	**–**	–	–
Cumulative payments to date	**(42,881)**	(58,180)	(87,835)
Outstanding claims provision per balance sheet	**3,366**	29	94
Current estimation of surplus (deficit)		(19)	(195)
% of surplus (deficit) to initial gross reserve		–0.03%	–0.22%

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 aging 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.

Notes to consolidated financial statements continued

(Thousands of Georgian Lari unless otherwise stated)

37. Risk management continued

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group based on the number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position.

	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**
Receivables from healthcare services	10	**31,365**	**8,154**	**34,173**	**73,692**
Loans issued	15	**–**	**10,314**	**–**	**10,314**
Total		**43,610**	**18,468**	**34,173**	**96,251**

	Notes	Neither past due nor impaired 31 December 2014	Past-due but not impaired 31 December 2014	Impaired 31 December 2014	Total 31 December 2014
Amounts due from credit institutions	8	13,954	–	–	13,954
Receivables from healthcare services	10	31,836	6,540	10,046	48,422
Loans issued	15	–	7,793	–	7,793
Derivative financial assets	15	2,054	–	–	2,054
Total		47,844	14,333	10,046	72,223

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.

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 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	**30,176**	**–**	**30,176**
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	**14,722**	**–**	**14,722**
Total liabilities	**120,478**	**162,821**	**283,299**
Net position	**160,382**	**314,599**	**474,981**
Accumulated gap	**160,382**	**474,981**	

37. Risk management continued

Liquidity risk and funding management continued

31 December 2014	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	32,784	–	32,784
Amounts due from credit institutions	13,954	–	13,954
Insurance premiums receivables	17,673	–	17,673
Receivables from healthcare services	43,265	–	43,265
Prepayments	1,608	3,267	4,875
Property and equipment	–	262,938	262,938
Goodwill and other intangible assets	–	10,123	10,123
Current income tax assets	2,139	–	2,139
Deferred income tax assets	–	703	703
Other assets	19,685	1,138	20,823
Total assets	131,108	278,169	409,277
Liabilities			
Accounts payable	8,591	–	8,591
Accruals for employee compensation	9,740	–	9,740
Payable for share acquisitions	13,165	–	13,165
Insurance contract liabilities	17,583	–	17,583
Borrowings	34,745	128,115	162,860
Current income tax liabilities	4,641	–	4,641
Deferred income tax liabilities	–	8,880	8,880
Other liabilities	11,506	–	11,506
Total liabilities	99,971	136,995	236,966
Net position	31,137	141,174	172,311
Accumulated gap	31,137	172,311	

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 its all present obligations and settle liabilities in a 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 2015	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	**30,176**	**–**	**–**	**–**	**30,176**
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	**66,502**	**26,208**	**135,044**	**13,153**	**240,907**

31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	8,591	–	–	–	8,591
Accruals for employee compensation	9,740	–	–	–	9,740
Borrowings	12,547	33,926	136,592	29,756	212,821
Other financial liabilities	7,446	–	–	–	7,446
Total undiscounted financial liabilities	38,324	33,926	136,592	29,756	238,598

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.

Notes to consolidated financial statements continued

(Thousands of Georgian Lari unless otherwise stated)

37. Risk management continued

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 borrowing linked to LIBOR and NBG short-term loan refinancing rates and is therefore exposed to interest rate risk.

	31 December 2015			31 December 2014	
	GEL	USD	EUR	GEL	USD
Amounts due from credit institutions	**11.82%**	**2.89%**	**–**	9.95%	7.20%
Borrowings	**14.24%**	**12.60%**	**12.0%**	10.63%	12.71%

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 year ended 31 December 2015 and 2014 sensitivity analysis did not reveal any significant potential effect on the Group's equity. The following table demonstrates sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's consolidated profit or loss:

Currency	Increase in basis points 31 December 2015	Sensitivity of interest expense 31 December 2015
USD	**+0.49%**	**77**
GEL	**+4.00%**	**3,485**

Currency	Increase in basis points 31 December 2015	Sensitivity of interest expense 31 December 2015
USD	**-0.49%**	**(77)**
GEL	**-4.00%**	**(3,485)**

Currency	Increase in basis points 31 December 2014	Sensitivity of interest expense 31 December 2014
USD	+0.01%	2
GEL	+1.00%	916

Currency	Increase in basis points 31 December 2014	Sensitivity of interest expense 31 December 2014
USD	-0.01%	(2)
GEL	-1.00%	(916)

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to US Dollars.

The Group's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group entities – Lari. Most of the Group's operations are denominated in Lari too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from US Dollars denominated borrowings that are partially hedged through cash deposits with banks, also denominated in US Dollars and the foreign currency swap contracts with the Group's counterparties.

37. Risk management continued

Currency risk continued

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2015 and 31 December 2014 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 2015				
	GEL	USD	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**
Loans issued	**4,158**	**6,156**	**–**	**–**	**10,314**
Total monetary assets	**128,500**	**70,787**	**34,279**	**9**	**233,575**
Liabilities					
Accounts payable	**29,160**	**1,016**	**–**	**–**	**30,176**
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	**14,490**	**232**	**–**	**–**	**14,722**
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**	

	31 December 2014			
	GEL	USD	EUR	Total
Assets				
Cash and cash equivalents	4,403	28,340	41	32,784
Amounts due from credit institutions	5,528	8,426	–	13,954
Receivables from healthcare services	43,265	–	–	43,265
Loans issued	–	7,793	–	7,793
Total monetary assets	53,196	44,559	41	97,796
Liabilities				
Accounts payable	8,591	–	–	8,591
Payable for share acquisitions	13,165	–	–	13,165
Insurance contract liabilities	17,082	190	311	17,583
Borrowings	119,986	42,874	–	162,860
Other liabilities	10,922	584	–	11,506
Total monetary liabilities	169,746	43,648	311	213,705
Net monetary position, before derivatives	(116,550)	911	(270)	(115,909)
Derivative financial instruments	(37,082)	39,136	–	2,054
Net monetary position including derivatives	(153,632)	40,047	(270)	(113,855)
% Increase in currency exchange rate		+23.4%	+1.9%	
Effect on profit before income tax expense		9,371	(5)	
% Decrease in currency exchange rate		-23.4%	-1.9%	
Effect on profit before income tax expense		(9,371)	5	

As part of its risk management, the Group uses foreign exchange forward contracts to manage exposures resulting from changes in foreign currency exchange rates.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, 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.

Notes to consolidated financial statements continued

(Thousands of Georgian Lari unless otherwise stated)

37. Risk management continued

Operating environment

The Group's business in 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.

38. Fair values 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;
- 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. It also includes 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 table does not include the fair values of non-financial assets and non-financial liabilities:

	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	–
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)

	Level 1	Level 2	Level 3	Total fair value 31 December 2014	Carrying value 31 December 2014	Unrecognised gain (loss) 31 December 2014
Assets measured at fair value						
Property and equipment	–	–	1,896	1,896	1,896	–
Other assets: derivative financial assets	–	2,054	–	2,054	2,054	–
Other assets: investment properties	–	–	1,138	1,138	1,138	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	32,784	–	32,784	32,784	–
Amounts due from credit institutions	–	–	13,954	13,954	13,954	–
Receivables from healthcare services	–	–	43,265	43,265	43,265	–
Other assets: loans issued	–	–	7,793	7,793	7,793	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	162,860	162,860	162,860	–

The Group only carries land and office buildings at fair value (level 3). Refer to 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, investment property

Property and investment property at fair value consist of land and buildings, 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 or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable land and buildings respectively. The cost approach reflects the amount that would be required currently to replace the service capacity of the asset.

38. Fair values measurements continued

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 2015	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment	**3,435**						
	1,653	Market approach	Price per square metre	2,057-2,284	Square metres, building	211; 619	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 168
	197	Cost approach	Replacement cost per square metre	188	Square metres, building	1,327	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by GEL 20
			Developers' profit margin	10%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 2
			Land price per square metre	5	Square metres, land	5,782	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 1
	1,585	Market approach	Price per square metre	1,919	Square metres, building	593	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 159

	31 December 2014	Valuation technique	Significant unobservable inputs	Amount	Other key information	Area	Sensitivity of the input to fair value
Investment property	**1,138**						
	1,138	Market approach	Price per square metre	1,919	Square metres, building	593	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 114

	31 December 2014	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment	**1,896**						
	1,653	Market approach	Price per square metre	2,057-2,284	Square metres, building	211; 619	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 168
	243	Cost approach	Replacement cost per square metre	188	Square metres, building	1,327	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by GEL 24
			Developers' profit margin	10%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 2
			Land price per square metre	5	Square metres, land	5,782	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 1

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) 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 are 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)

39. 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 2015			31 December 2014		
	Parent[1]	Entities under common control[2]	Other[3]	Parent[1]	Entities under common control[2]	Other[3]
Assets						
Cash and cash equivalents	**97,505**	**7**	**–**	31,468	7	–
Amounts due from credit institutions	**5,072**	**–**	**–**	6,740	–	–
Insurance premiums receivable	**1,165**	**218**	**–**	747	241	–
Other assets: Non-medical receivables	**–**	**3,742**	**–**	–	2,054	–
Other assets: Loans issued	**–**	**–**	**9,954**	–	–	7,793
Other assets	**3**	**41**	**–**	162	425	–
	103,745	**4,008**	**9,954**	39,117	2,727	7,793
Liabilities						
Borrowings	**34,618**	**2,066**	**–**	89,769	2,980	–
Insurance contract liabilities	**1,419**	**178**	**–**	733	88	–
Accounts payable	**741**	**229**	**–**	813	335	–
	36,778	**2,473**	**–**	91,315	3,403	–

	Year ended 31 December 2015			Year ended 31 December 2014		
	Parent[1]	Entities under common control[2]	Other[3]	Parent[1]	Entities under common control[2]	Other[3]
Income and expenses						
Net insurance premiums earned	**2,129**	**320**	**–**	–	–	–
General and administrative expenses	**(783)**	**(68)**	**–**	(512)	(39)	–
Interest income	**768**	**–**	**821**	–	263	686
Interest expense	**(11,467)**	**(427)**	**–**	(6,256)	(425)	–
Other operating income	**–**	**–**	**344**	–	–	–
Other operating expenses	**–**	**–**	**(280)**	(413)	(126)	–
	(9,353)	**(175)**	**885**	(7,181)	(327)	686

Notes:
1 Parent includes both BGEO and JSC Bank of Georgia figures.
2 Entities under common control include BGEO Group PLC subsidiaries.
3 Other related party comprises of single entity to which the Group provides management services.

Compensation of key management personnel comprised the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and cash bonuses	**2,867**	1,335
Share-based compensation	**1,089**	920
Total key management compensation	**3,956**	2,255

40. Events after reporting period

In January 2016, the Directors of GHG undertook a reduction of capital in order to create distributable reserves for GHG. It was the intention of GHG's Directors that the maximum amount of distributable reserves should be created. GHG Directors implemented a Court approved reduction of capital which reduced the original nominal value of GHG shares. GHG shares had an original nominal value of GBP 0.1 per share. Following the reduction of capital the nominal value of GHG shares was reduced to GBP 0.01. The reduction of capital is a legal and accounting adjustment and did not, of itself, have any direct impact on the market value of GHG shares.

In January 2016, the Group early redeemed several borrowings from commercial banks thereby reducing balance of outstanding borrowings to GEL 69.6 million from GEL 117.2 million as at 31 December 2015.

In March 2016 the Group signed a binding Memorandum of Understanding, subject to relevant regulatory approvals, to acquire a 100% equity stake in JSC GPC ("GPC"), one of the three leading pharmaceutical retailers and wholesalers in Georgia.

Abbreviations

AGM	Annual General Meeting
CAGR	Compounded annual growth rate
CDC	Centre of Disease Control
CDP	Continuing Professional Development Programmes
CEO	Chief Executive Officer
Code	UK Corporate Governance Code 2014
COGS	Cost of goods sold
DCFTA	Deep and comprehensive free trade area
DFI	Development Finance Institutions
DKC	David Kodua Centre
EECP	Executives' Equity Compensation Plan
EMC	LLC Catastrophe Medicine Paediatric Centre
EPS	Earnings per share
EUR	Euro
EY	Ernst & Young
FCCS	Fundamental Critical Care Support
FDI	Foreign direct investment
GBP	Great British Pound, national currency of the UK
GDP	Gross domestic product
GEL	Georgian Lari or Lari, national currency of Georgia
GFATM	The Global Fund to Fight AIDS, Tuberculosis and Malaria
GHG	Georgia Healthcare Group
GIMPHA	Georgian International Medical and Public Health Association
HAI	Healthcare Associated Infections
HTMC	High Technology Medical Center University Clinic
KPI	Key performance indicator
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IC	Infection Control
ICU	Intensive Unit Care
IFRS	International Financial Reporting Standards
ISSSG	Insurance State Supervision Service of Georgia
IVF	In Vitro Fertilisation
JCI	Joint Commission International
KBO	Key Business Objectives
MoU	Memoranda of Understanding
NCDC	National Centre for Disease Control and Public Health
OB-GYN	Obstetrics and Gynaecology
ORMD	Operational Risk Management Department
PFCCS	Paediatric Fundamental Critical Care Support
SG&A	Selling, general and administrative expenses
SIP	State Insurance Programme
SOPs	Standard operating procedures
SSA	State insurance agency
THUAS	Hague University of Applied Sciences
TMQS	Total Medical Quality and Safety Unit
UHC	Universal Healthcare Programme
USAID	US Agency for International Development

Glossary

Adjusted Return on average total equity (Adjusted 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 net of IPO proceeds
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
Bed occupancy	Number of total inpatient days divided by the number of bed days (number of days multiplied by number of beds) available during the year
Combined ratio	Sum of loss ratio and expense ratio
Corrections and rebates	Corrections of invoices by third parties due to errors or faults
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 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 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
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
Selling, general and administrative expenses rate (SG&A rate)	General and administrative expenses divided by gross revenue excluding corrections and rebates
The Group's expansion capital expenditure	Longer-term expenditures including acquisition of properties with long term useful lives
The Group's maintenance capital expenditure	Short-term expenditures (up to one year)

Shareholder information

Annual General Meeting

The Annual General Meeting will be held at 10.00am (London Time) on 26 May 2016 at the offices of Baker & McKenzie, 100 New Bridge Street, London, EC4V 6JA, UK. The Notice of Meeting together with an explanation of the business to be dealt with at the meeting is included as a separate document sent to shareholders who have elected to receive hard copies of shareholder information and is also available on the Company's website www.ghg.com.ge.

Shareholder enquiries

GHG PLC's share register is maintained by Computershare Investor Services PLC. Any queries about the administration of holdings of ordinary shares, such as change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website www.investorcentre.co.uk.

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Forward-looking statements

Where this Annual Report contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Annual Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of important factors, including those in this Annual Report, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under "Principal Risks and Uncertainties" on pages 47 to 49 of this Annual Report. The Group undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Notes

Notes

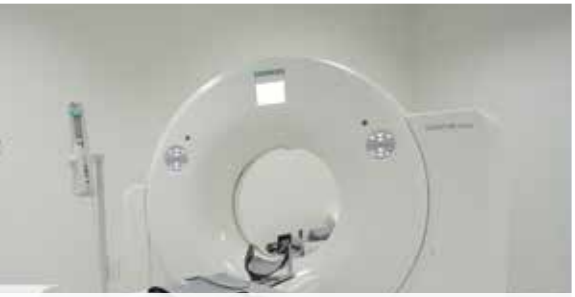
In September 2015, we launched our largest multi-profile ambulatory clinic in the Gldani district of Tbilisi. In November-December 2015, we launched two new ambulatory clusters, one in Tbilisi, and one in Kutaisi, the second largest city in Georgia. Enrolment of ambulatory clinics is consistent with the Group's announced strategy to grow its healthcare services business through rolling-out a network of new ambulatory clinics across Tbilisi and in other major cities of Georgia.

We initiated and facilitated the opening of a mutual Nurse College at David Tvildiani Medical University, a leading medical institution in Georgia.

In September 2015, experts from the Mayo Clinic conducted training for our staff in Paediatric Fundamental Critical Care Support (PFCCS) and Fundamental Critical.

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, anaesthesiology and intensive care, laboratory medicine, obstetrics and gynaecology, children's cardio and rheumatology.

In May 2015 we have lunched the Western Georgia's largest and most well-equipped Oncology Centre in Kutaisi, where we have installed Linear Accelerator for radiation therapy.



During 2015, the Company continued to acquire new medical equipment. Ten new CT scanners were purchased, three outdated CT's where replaced with new ones, while others were installed in different locations, including new ambulatories, in Gldani and in Varketili.

In November 2015, we launched a paediatric cardiology department at the children's referral hospital in Tbilisi.

In August 2015 we acquired a 50% equity interest in and control of GNCo. GNCo is a holding company that owns 100% of HTMC Hospital, a major and well-established 450 bed referral hospital in Tbilisi.

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