GEORGIA
HEALTHCARE
GROUP

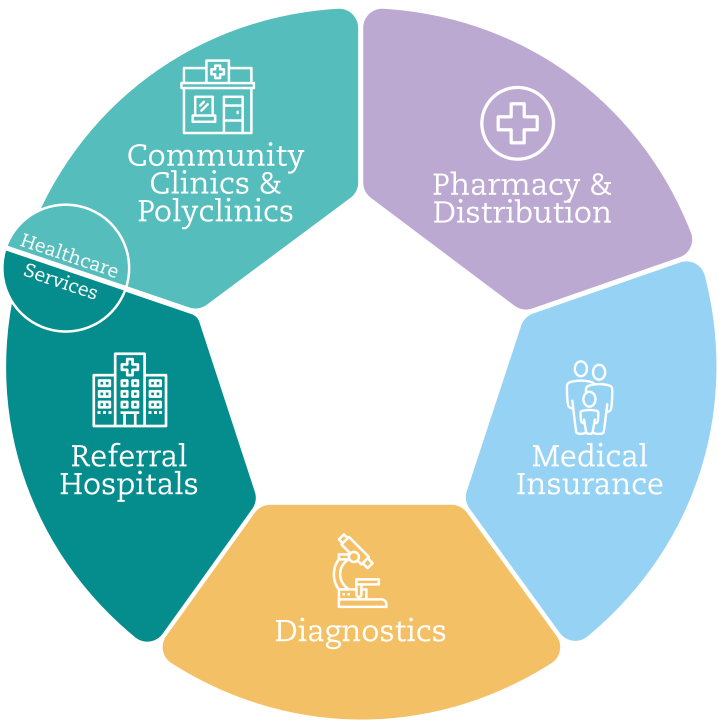
The only fully integrated healthcare provider in the region

Annual Report 2018

Investing in the growth and quality of healthcare in Georgia

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

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



Healthcare services

The healthcare services business operates through its vertically integrated network of hospitals and clinics in Georgia.

Referral hospitals

We operate 16 referral hospitals with a total of 2,825 beds, providing secondary or tertiary healthcare services.

Read more on page 12

Community clinics

We operate 21 community clinics with a total of 495 beds, providing outpatient and basic inpatient healthcare services.

Read more on page 13

Polyclinics

We operate 16 polyclinics, day-clinics, providing outpatient diagnostic and treatment services.

Read more on page 14

Pharmacy and distribution

GHG is the largest pharmaceuticals retailer and wholesaler in Georgia, operating 270 pharmacies countrywide.

Read more on page 15

Medical insurance

GHG is also the largest provider of medical insurance in Georgia with c.230,000 insurance customers.

Read more on page 16

Diagnostics

GHG has recently completed the construction of and launched the largest diagnostics laboratory in Georgia and in the entire Caucasus region.

Read more on page 17

Strategic Report

Overview

Strategy

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Financial highlights

The effectiveness of our strategy is reflected in the record 2018 financial results highlighted below.

Revenue (GEL million)[1]

849.9

+13.7% y-o-y

2018	849.9
2017	747.8
2016	426.4

Total assets (GEL million)

1,240.5

+5.1% y-o-y

2018	1,240.5
2017	1,180.8
2016	915.4

Gross profit (GEL million)

268.6

+17.8% y-o-y

2018	268.6
2017	228.0
2016	146.0

Pharmacy and distribution gross profit margin (%)

25.5

+1.0 ppts y-o-y

2018	25.5
2017	24.5
2016	20.7

EBITDA (GEL million)

132.3

+22.3% y-o-y

2018	132.3
2017	108.1
2016	78.0

Healthcare services EBITDA margin (%)

24.9

-1.5 ppts y-o-y

2018	24.9
2017	26.4
2016	30.2

Pharmacy and distribution EBITDA margin (%)

10.1

+1.5 ppts y-o-y

2018	10.1
2017	8.6
2016	4.3

Profit before tax (GEL million)

53.9

+16.3% y-o-y

2018	53.9
2017	46.3
2016	40.2

Earnings per share (GEL)

0.27

+17.4% y-o-y

2018	0.27
2017	0.23
2016[2]	0.24

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

13.9

+1.1 ppts y-o-y

2018	13.9
2017	12.8
2016	9.0

1 The amount represents gross revenue before corrections and rebates (see Financial Statements, Note 3). Revenue net of corrections and rebates was GEL 846.3 million in 2018 (2017: GEL 745.7, 2016: GEL 423.8 million).
2 2016 earnings per share ("EPS") is calculated as normalised net profit divided by weighted average number of shares outstanding during the same period.
3 Return on invested capital ("ROIC") is adjusted to exclude newly launched hospitals and polyclinics that are in roll-out phase.

Operational highlights

2018 operating highlights reflect an expanding footprint and growth strategy.

Number of referral hospitals

16

+0 (over 2017)

Number of community clinics

21

+0 (over 2017)

Number of polyclinics

16

+0 (over 2017)

Number of pharmacies

270

+15 (over 2017)

Number of insured[1]

c.230,000

c.+75,000 (over 2017)

Diagnostics[2]

Mega laboratory

Number of hospital beds

3,320

+306 (over 2017)

Referral hospital bed occupancy rate[3]

56.2%

-5.4 ppts (over 2017)

Organic growth rate of healthcare services revenue

15.1%

+8.2 ppts (over 2017)

Same store sales growth rate at our pharmacies

8.5%

+0.6 (over 2017)

1 As at February 2019.
2 Launched in December 2018.
3 Referral hospital bed occupancy rate excluding newly launched facilities, Regional Hospital and Tbilisi Referral Hospital, was 63.3% in 2018.

At a glance

The structure of our business

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

Market leader on each operating segment

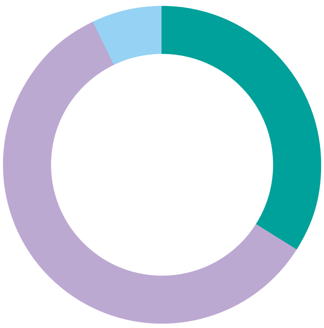
- The largest healthcare service provider in Georgia: 24.9% market share by number of referral hospitals and community clinics beds – 3,320[1].
- The largest pharmaceuticals retailer and wholesaler in Georgia: c.30% market share by sales[2], over two million client interactions per month, with c.0.7 million loyalty card members.
- In 2019 we became the largest medical insurer in Georgia with c.230,000 insured individuals: in 2018 with c.158.000 insured clients, the business held 26.7% market share by revenue[3].
- The largest diagnostics laboratory in Georgia, as well as in the entire Caucasus region ("Mega Lab"): opened in December 2018.
- Institutionalising the industry: strong corporate governance; standardised processes; improving safety and quality by progressive implementation of the Joint Commission International ("JCI") benchmarked standards; own personnel training centre.

Business model with cost and synergy advantages

- The single largest integrated company in the Georgia healthcare ecosystem with a cost advantage due to its scale of operation:
  - The largest purchaser of pharmaceutical products in Georgia
  - The next largest healthcare services competitor has only 5% market share by beds
- Better access to professional management and high-calibre talent:
  - One of the largest employers in the country: c.16,000 full-time employees, including c.3,600 physicians, c.3,300 nurses and c.3,300 pharmacists
- Referral system and synergies with insurance and pharmacy and distribution businesses:
  - Presence of patient pathway and referral synergies
  - Insurance activities provide steady revenue stream for our polyclinics and bolster hospital patient referrals
  - Around 0.7 million loyal customers in our pharma business with an upside to cross-sell

A well diversified business

GHG Revenue breakdown by segments



GHG EBITDA breakdown by segments

GHG Revenue distribution by payment sources

c.16,000
Full-time employees
GHG

25%
Market share by beds
Healthcare services

30%
Market share by revenue
Pharmacy and distribution

27%
Market share by revenue[3]
Medical insurance

Sources:
1 National Centre for Disease Control and Public Health ("NCDC") data as of December 2017, updated by GHG to include the changes before 31 December 2018.
2 Market size – Frost & Sullivan analysis.
3 Insurance State Supervision Service Agency of Georgia ("ISSSA") as of 30 September 2018.

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

Long-term high-growth opportunities

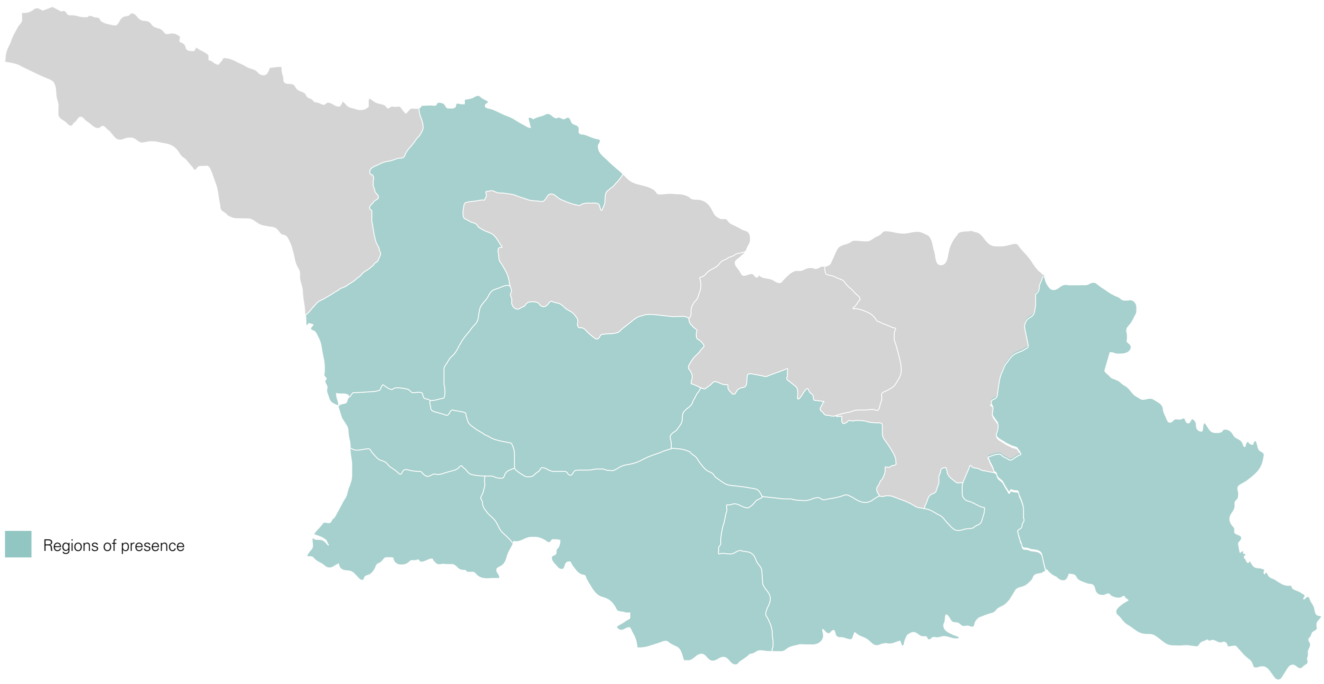
- Low base: Georgia with low per capita expenditure on healthcare – US$324, and with only 3.5 outpatient encounters per capita annually[1], has the vast potential for further increase.
- Supported by attractive macro environment: Georgia – one of the fastest-growing countries in Eastern Europe, is an open and easy emerging market to do business[2], with real GDP growth averaged 4.5% annually in 2007-2017. c.9% of GDP is spent on healthcare and spending is growing at 11.5% compound annual growth rate ("CAGR") between 2000 and 2014[3]; Government spending more than doubled between 2011 and 2017[4].
- Implying long-term, high-growth expansion that is driven by:
  - UHC
  - Pick-up in polyclinics, outpatient market
  - Adding new service
  - Developing medical tourism

Strong management with proven track record

- Strong business management team – an increased market share by beds from under 1% in 2009 to 24.9% currently, by building the modern infrastructure. Entered the pharmacy and distribution market in 2016, where currently GHG holds c.30% market share.
- Robust corporate governance: exceptional in Georgia's healthcare sector, as it is the only Premium Listed company in the Georgian healthcare industry (LSE: GHG LN)[5]; 57% of our shares are owned by Georgia Capital PLC (LSE: CGEO LN) – a UK listed holding company of a diversified group of companies following completion of its demerger from BGEO Group PLC on 29 May 2018. The rest of the shares are owned by institutional investors and by our management as part of the Employee Stock Ownership Plan ("ESOP").
- In-depth knowledge of the local market.

Extensive geographic coverage

Network of healthcare facilities and pharmacies, covering ¾ of the Georgian population.



16	21	16	270	Mega Lab
Referral hospitals	Community clinics	Polyclinics	Pharmacies	Diagnostics

1 NCDC statistical yearbook 2017.
2 Ranked number six in World Bank's 2018 "Ease of Doing Business Report", ahead of all its neighbouring countries and several EU countries.
3 Frost & Sullivan analysis.
4 Ministry of Finance.
5 GHG Group PLC successfully completed its IPO of ordinary shares on the Premium Segment of the LSE on 12 November 2015.

Chairman's Statement

The overall economic picture in Georgia remains a promising one for our company; Implementation of progressive healthcare policies and public health measures appears to command broad support

Fellow shareholders,

I begin this letter with a thank you to Irakli Gilauri, the founding Chair of GHG. While serving as CEO of the Bank of Georgia, he recognised the potential for building a modern healthcare company serving Georgia. He led the spinout in 2015 and attracted US$100 million in capital to create a first-class nationwide healthcare network. He assembled a management team and a board capable of delivering quality care and creating value in what is now the largest private employer in the Georgia. Irakli has stepped down as chair but remains an active board member. I am honoured to succeed him.

The overall economic picture in Georgia remains a promising one for our company. The economy grew at estimated rate of 4.7% in 2018, with annual average inflation at 2.6%. Per-capital GDP is estimated to have grown to US$4,345 in 2018. The EU-Georgia Association Agreement and related Deep and Comprehensive Free Trade Agreement lay solid groundwork for more economic opportunities as Georgia continues to deepen its commitment to European standards and norms. Looking east, the Free Trade Agreements with China and Hong Kong should create export opportunities and increase FDI.

The country consistently ranks well on indicators of governance and doing business. It ranks just 6th out of 190 countries for the latter, up from 9th from last year. Strong anti-corruption policies and the Government's active engagement to attract international investors with tax and legal incentives, positions the country on a par with many European Union member states.

Implementation of progressive healthcare policies and public health measures appears to command broad support. Georgia government has more than doubled its healthcare spending to 3% of GDP (total spending on healthcare at US$324 per capita). We see significant growth potential; government spending in most countries with a universal healthcare system are above 5% of GDP.

Against that backdrop, I'd like to highlight three of the ambitious goals we have for the company:

1. Fully realise the quality and financial performance potential of our hospital, clinic and retail networks.

We have created a modern healthcare and retail networks. Our priority now is to fully utilise that capacity, drive continuous improvement in clinical quality and productivity and generate cash. These networks provide important scale economies for procurement, operating productivity and platforms for patient/customer satisfaction and clinical quality performance. Nikoloz Gamkrelidze, our CEO, has modernised his management structure to ensure accountability for operating, quality and financial KPIs in each of our lines of business. He continues to deepen and develop our pool of general managers and functional leaders.

2. Grow profitably.

We have a promising portfolio of growth opportunities, most of which will be realised with minimal capital. Our retail pharmacy business is pioneering new product concepts and store formats. We are expanding the range of healthcare services to attractive markets, such as dental and diagnostic testing, in which our capabilities can deliver better care and create value. We have begun to build a medical tourism business, targeting consumers in the region for whom Georgia offers superior care at an affordable price in an attractive travel destination. This business, which we are building with a dedicated business model, can generate attractive returns and provide attractive opportunities for our best physicians. We believe the vigorous growth in Georgia's tourism will be a helpful tailwind. Finally, our digital innovations will provide unmatched capabilities for our customers and patients across our retail, insurance and healthcare portfolio.

3. Contribute to a healthier Georgia.

Our management team is proud of the contributions we make to the healthcare capabilities and infrastructure of Georgia. Each year, we invest on average 11 hours of training per person across our c.16,000 employees — mostly on our physicians, nurses, pharmacists and managers. Examples include the residency program designed to deepen the skills in important medical specialties and develop next generation of doctors. We partner broadly with the Georgian government on a variety of educational and public health programs such as screenings and vaccinations, including the recent deployment of a leading-edge e-prescribing capability.

I invite you to read this report to learn more about our company, its performance and its promise.

William (Bill) Huyett
Chairman
2 April 2019

Chief Executive Officer's Statement

2018 was a significant year of investment and progress for Georgia Healthcare Group, as the Group has now completed its substantial three-year investment programme and business roll-out in all key areas of the healthcare system of Georgia

In 2018, the Group delivered mid-teens revenue growth in both the healthcare services and the pharmacy and distribution businesses, and demonstrated significant progress in the medical insurance business by its recent turnaround and a good profit performance.

We continued to make significant progress in our two new showcase hospitals and have completed our Mega Laboratory project, an important new business and revenue opportunity for the Group. We have also recently introduced dental services into the polyclinic network and started developing medical tourism, both supporting the development of new and more diverse revenue streams. Below I'll highlight each of these in more detail.

Group performance. The Group's 2018 results reflect delivery on a number of these recent initiatives. EBITDA of GEL 132 million represented a 22% increase y-o-y, net profit increased by 16% over the same period and EBITDA to cash conversion grew from 54% to 75%. It has been pleasing to see robust results in each of the businesses. Following the recent launch of our two new flagship hospitals, results in the healthcare services business are now showing consistent and sustained improvements as we continue to increase the utilisation of our new state-of-the-art hospital facilities. The pharmacy and distribution business has exceeded expectations, with strong revenue growth, further expansion of its nationwide network, and an EBITDA margin in excess of 10% for the year, comfortably ahead of our initially targeted "more than 8%". Our medical insurance business has continued its expansion and successful turnaround from being loss-making to being a contributor to the Group profit.

Healthcare services. In 2018, healthcare services revenue grew 15% to GEL 306 million. EBITDA increased 9% y-o-y to GEL 76 million, and the EBITDA margin was 24.9% (the EBITDA margin for referral hospitals and community clinics, excluding the roll-out impact, stood at 28.7%). In the two new showcase facilities of our healthcare services business, Regional Hospital and Tbilisi Referral Hospital, we are seeing strong improvements in utilisation as the facilities are now both fully launched. Despite having only opened in March 2018, occupancy at our 306-bed Regional Hospital increased to 32.7% and the hospital started to generate a double-digit EBITDA margin in the fourth quarter of 2018 – a substantial achievement for a newly-launched hospital. The occupancy rate at Tbilisi Referral Hospital (fully opened in December 2017) was in excess of 46% in the fourth quarter.

To support the further diversification of revenues and close medical service gaps in the country, we continue to grow our presence in the elective services market – which tends to be higher margin. In 2018, we continued launching new medical services in our referral hospitals, with 26 new services introduced during the year, including a home care service. This also includes opening the country's strongest ophthalmology and cardiology departments by contracting the best team of doctors in their respective fields. Within six months of the new ophthalmology department launch, we had gained approximately 15% market share in these services, compared to the previously held share of less than 3%.

We see medical tourism as a significant opportunity for growth over the next few years. Until recently, Georgia has been mainly a source of medical tourism outflow, but the significant recent investments in upgrading our hospital infrastructure and building our clinical and customer service quality have enabled the Group to make progress in recapturing the business of domestic patients that would historically have travelled abroad for treatment. We are now focused on developing medical tourism into Georgia. Our initial priority will be post-Soviet neighbouring countries and we have already started to raise awareness of our medical facilities throughout the region. We captured GEL 3.4 million of revenues from international visitors during 2018 and will continue to invest in an area that we are confident will become an important source of growth for the healthcare services business.

Polyclinic network. Our polyclinic network has continued to expand (revenue up 33% y-o-y). These polyclinics now clearly stand out from their competition as new, modern facilities that provide a diverse range of high-quality services in one location. The number of registered patients in GHG's Tbilisi polyclinics has now reached c.150,000, compared to c.93,000 at the end of 2017.

In December 2018, we also entered into the Georgian dental services market by launching dental clinics within a number of our key polyclinics. Five polyclinics have already been equipped with modern dental equipment and cover a wide range of dental services. We plan to add several dental clinics in existing polyclinics in coming months and expect this to be another strong area of revenue growth over the next few years.

Mega Laboratory. The construction of our Mega Lab, the largest laboratory in Georgia and the entire Caucasus region, was one of the key projects remaining in our investment programme. It was very pleasing to complete construction and open the lab in December 2018, and GHG now provides a full set of clinical and pathology tests, some of which are being introduced in the region for the first time.

The project is supported by our colleagues from Jordan, Biolab, a subsidiary of IDH Group, who have many years of experience in this field. Biolab will support Mega Lab in obtaining the highest international healthcare accreditation over the next few years. In addition to providing significant synergies, this is an important new business that will be the clear leader in Georgia and the Caucasus region. Mega Lab plans to develop a retail network, with around 50 blood collection points across major regional cities in coming years, and to work on additional external contracts, contracting and serving healthcare facilities outside the Group, further diversifying the Group's revenue streams.

Pharmacy and distribution. Our pharmacy and distribution business posted record revenues of GEL 519 million, with over 15% y-o-y revenue growth supported by active marketing campaigns and sales initiatives implemented across our two combined pharmacy chains that has delivered 8.5% same-store growth during 2018.

We have expanded the number of pharmacies to 270 in major cities, compared to 255 a year ago, and plan to further expand to over 300 pharmacies over the next couple of years. Our wholesale distribution business also delivered strong 2018 revenue growth of 18%.

The pharmacy and distribution business EBITDA increased 34% y-o-y to GEL 52 million. The business full year EBITDA margin increased 150 basis points, reaching 10.1% in 2018, substantially above our targeted "more than 8%" margin. By seeking additional discounts from manufacturers and constantly working to improve our product mix at our pharmacies, including an increased range of private labelled medicines and para-pharmacy products, we expect to continue to deliver strong EBITDA going forward. The synergies we have been able to extract by combining our two pharma chains have enabled the business to provide Georgians affordable pricing on key products, while keeping our margin at an attractive level.

The business achieved net profit totalling GEL 34 million for the year, growth of over 60%, reflecting the combination of strong revenue growth and improved margins, together with focused cost management.

Medical insurance. Our medical insurance business had successful year in 2018, delivering all its strategic priorities and KPIs. The business turned around its earnings profile and at the same time continued to develop its role as an important feeder network in the origination and directing of patients towards our polyclinics and pharmacies in particular. The Group's claims retention rates improved significantly, reaching c.40% in 2018. The combined ratio improved to 94.0% for 2018, compared to 102.5% last year. As a result, the business delivered positive EBITDA of GEL 4 million in 2018, and a net profit of GEL 3 million, compared to a similar net loss in 2017.

The business has also started 2019 successfully. By winning recent tenders, the business retained one and added another of the country's largest insurance clients for 2019. As a result, the total number of insured clients is now c.230,000. With the increased client base, GHG's insurance business has become the largest private payer in the healthcare sector, further ensuring profitable growth and significant synergies across the Group.

Investing in people development. We continue various training programmes for our employees to help them contribute to better business performance through personal and professional development. A key objective of the Group is to invest in the next generation of doctors and position ourselves as the employer of choice. In 2018 we spent a total of GEL 3 million on talent development. Our "GHG Leadership Programme" continuous to be one of the most popular leadership courses among our employees and currently over 50 middle level managers are engaged in the programme to improve their leadership and managerial skills. Over 200 talented people are currently involved in our medical residency programme, which improves the quality of postgraduate preparation and facilitates an increase in the number of qualified doctors in the country. Successful participants from the programme have already started employment as junior doctors within our healthcare facilities. We are pleased that this year we will also have the first 44 graduates from the programme.

Consistently improving clinical standards. We remain focused on developing quality management measures and harmonising them across our integrated network through consistent protocols, procedures and our recently implemented clinical key performance indicator monitoring system. In 2018 our Clinical Team, headed by the Group's Chief Clinical Officer, was actively engaged in developing and implementing these quality management measures, based on best practice principles, in our recently launched flagship hospitals, Regional Hospital and Tbilisi Referral Hospital. In 2018, several additional projects were initiated, addressing clinical quality issues including clinical pathway improvement projects related to sepsis, pneumonia and rational antibiotic therapy, standards of personnel safety and occupational safety.

Capital framework and Dividend Policy. I'm pleased that we have completed our capital framework review and have recently announced the Group's first dividend. In addition to providing greater access to affordable high-quality healthcare, the Group is pursuing attractive new growth opportunities. It is building markets in areas such as medical tourism, outpatient services, the provision of dental services, aesthetics, and laboratory diagnostics. When combined with the organic growth in our existing businesses, the higher utilisation of the recently-launched new hospitals and polyclinic network, and the expansion of our pharmacy and distribution business, we are targeting a double-digit compound annual growth rate in revenues over the next few years.

The Board and the management also expect the Group to deliver an improved return on invested capital in each business and to generate substantially increased free cash flow. This reflects both higher earnings and reduced investment requirements over the next few years, following the completion of our significant three-year investment programme. Our capital allocation framework considers the likely capital required over the next few years to finance our growth and maintain our assets. Accordingly, management and the Board have decided the following:

- To recommend to shareholders at the 2019 Annual General Meeting, a final dividend of GEL 0.053 per share, to be paid in respect of the 2018 financial year. This represents a payout of 20% of 2018 earnings.
- To adopt a new dividend policy reflecting our intent that 20%-30% of annual profit attributable to shareholders will be distributed as dividends.
- To target managing the Group balance sheet, on an ongoing basis, at an average less than 2.0 times net debt to EBITDA from the end of 2020.

The Georgian macroeconomic environment. The Georgian economy continues to perform well with GDP growth in 2018 estimated at 4.7%. Strong external demand and double-digit growth of foreign exchange inflows reduced the current account deficit in 2018 and, in 3Q18 for the first time in the country's history, Georgia had a current account surplus (0.3% of GDP). On the back of country's strong economic growth, the Government's healthcare budget continues to increase. According to its recently approved 2019 budget, total Government expenditure will increase by c.5%, with the health care ("UHC") budget up c.7%. We expect further macroeconomic growth to continue these trends and support domestic economic growth, including the Georgian healthcare services market, over the next few years.

Apart from market growth over the next few years, we expect to benefit from our recent investments, and that increased utilisation of our new and existing hospitals will translate into further growth and improved margins. The Group will continue to focus on its key priorities such as developing medical tourism and laboratory diagnostic services, expanding the outpatient network and dental clinics, adding new pharmacies, upgrading product mix and developing new opportunities. The Group's strong balance sheet and increasing operating cash flows (an increase over 70% in 2018), together with improved earnings and lower investment capital expenditure requirements, will enable us to gradually reduce the business leverage and further improve our returns on invested capital.

Nikoloz Gamkrelidze,
Chief Executive Officer
2 April 2019

This Strategic Report, set out on pages 2 to 65 was approved by the Board of Directors on 2 April 2019 and signed on its behalf by Nikoloz Gamkrelidze, Chief Executive Officer.

Nikoloz Gamkrelidze,
Chief Executive Officer
2 April 2019

A fully integrated care pathway

Our well-established network of hospitals and clinics allows a seamless patient treatment pathway from local doctors to multi-profile hospitals and pharmacies, while the medical insurance business plays a feeder role in originating and directing patients.

We operate a highly-integrated business model, where clinics are often the first point of interaction for attracting patients. The patients who come to our clinics can be referred to our hospitals for treatment or to our pharmacies to fill their prescriptions. In the healthcare services business, our clinics and hospitals are organised in specific geographical clusters to provide services to the broadest range of patients through:

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

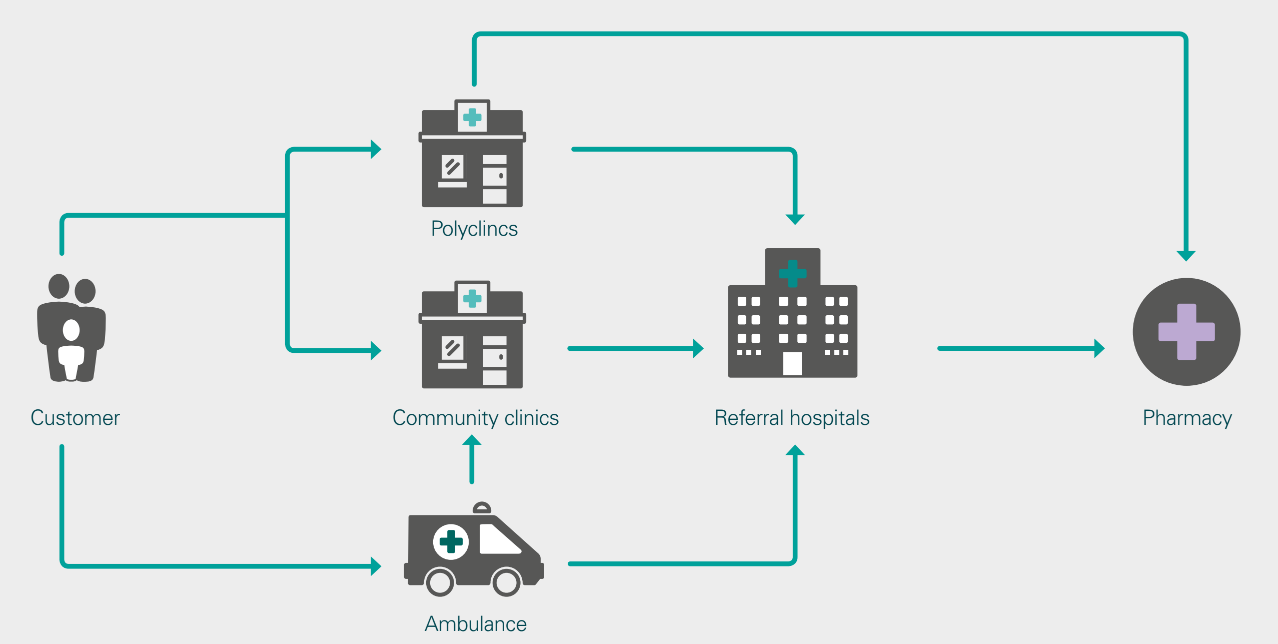
The referral hierarchy within each geographical cluster provides patients with a complete and convenient treatment pathway, from local physicians in polyclinics and community clinics to referral hospitals. Our 44 specialist ambulances help achieve this by facilitating the movement of patients to and between our hospitals. While we provide basic ("primary") medical and surgical procedures at all our facilities, the majority of more specialised or advanced ("secondary" and "tertiary") interventional and surgical procedures are concentrated at our regional referral hospitals.

Our pharmacy and distribution business solidifies our strategic goal of having a strong presence across the healthcare ecosystem. Its strong customer loyalty programme helps us to grow our polyclinic business by driving additional referrals. In 2018, we also introduced ePrescriptions in our pharmacies and polyclinics, driving traffic from our polyclinics to GHG pharmacies, 21 of which are located within our healthcare facilities.

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

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

Customer pathway



Group's new structure

In 2018 the Group updated its business structure that had previously consisted of the polyclinics business under separate management and the hospitals business, including community clinics and referral hospitals under common control but managed separately from the polyclinics. According to the new structure, starting from 2019, the healthcare services business is divided into the following two segments: the clinics, which include polyclinics and community clinics, and referral hospitals. Both business lines, alongside pharmacy and distribution, medical insurance and laboratory businesses, will be independent business lines reporting to the Group. Each of the business lines will have its own chief operating officer and supporting back office function, which was previously the case for pharmacy and distribution business as well as for medical insurance business.

The rationale behind grouping the community clinics and polyclinics under one business line is the similar nature of these two businesses. Both of them represent the first point of patient interaction, offering basic outpatient services and, in the cases of complicated procedures, referring patients to the nearest hospital. The clinics and referral hospitals will be the leaders in their respective segments, pursuing significant growth opportunities and concentrating on a clearer strategy. Independent and more focused management teams will efficiently drive the businesses towards their strategic priorities.

Nikoloz Gamkrelidze,
CEO

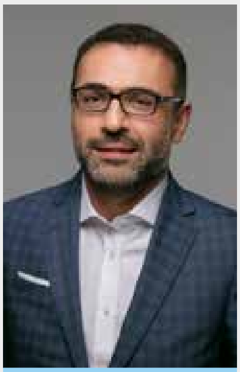
Georgia Healthcare Group

Hospitals	Clinics	Pharmacy and distribution	Medical insurance	Diagnostics

Giorgi Mindiashvili,
Chief Operating Officer

Giorgi Gordadze,
Chief Operating Officer

Misha Abramidze,
Chief Operating Officer



Givi Giorgadze,
Chief Operating Officer

Mikheil Dolidze,
Chief Operating Officer

Healthcare services – Referral hospitals

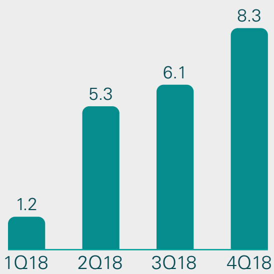
Referral hospitals are located in Tbilisi and major regional cities and provide secondary or tertiary level outpatient and inpatient diagnostic, surgical and treatment services. Our referral hospitals, which serve as hubs for patients within a given region, had a 56.2% bed utilisation rate in 2018. Excluding the effect of newly-launched Tbilisi Referral Hospital and Regional Hospital, the bed utilisation rate stood at 63.3%. The referral hospitals generated US$40,300 revenue per bed in 2018[1].

Successful ramp up of newly-launched hospitals

Regional Hospital

The diagnostic department opened in 3Q16 and the inpatient department in March 2018. The hospital operates with 306 beds and, as a result of successful ramp-up phase, after nine months of its opening the occupancy stood at 32.7% in 4Q18. As planned, more than 60% of its revenue comes from elective care services and more than 40% of revenue is paid out-of-pocket. The hospital has been generating positive EBITDA since 3Q18.

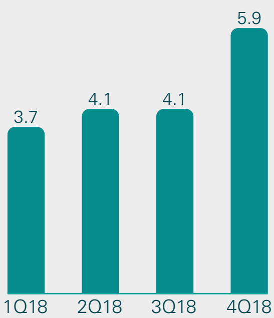
Revenue dynamics by quarters, Regional Hospital *(GEL million)*



Tbilisi Referral Hospital

Opened in April 2017 with newly-renovated 220 beds. In December 2017, additional capacity of 112 beds was added and the hospital was fully launched. We are pleased to see that the hospital has been generating positive EBITDA since 1Q18, with the occupancy rate standing at around 46.5% in 4Q18.

Revenue dynamics by quarters, Tbilisi Referral Hospital *(GEL million)*

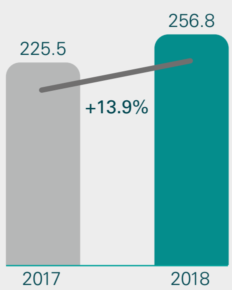


16
Referral hospitals

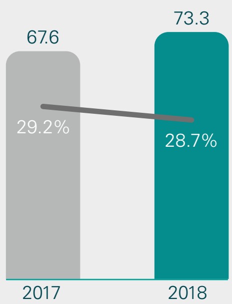
85%
Revenue share in healthcare services business

2,825
Number of beds

Revenue
(GEL million)



EBITDA and adjusted EBITDA margin[2]
(GEL million)



1 Excludes data for newly-launched Tbilisi Referral Hospital and Regional Hospital.
2 Adjusted EBITDA margin are for referral hospitals and community clinics and excludes data of newly-launched Tbilisi Referral Hospital and Regional Hospital.

Healthcare services – Community clinics

Community clinics are located in regional towns and municipalities and provide outpatient and inpatient diagnostic, basic surgical and treatment services to the local population. For complicated cases their primary goal is to stabilise the patient and redirect to the nearest referral hospitals for secondary or tertiary treatment. Our community hospitals had a 26.5% bed utilisation rate, demonstrating their role as primary healthcare providers.

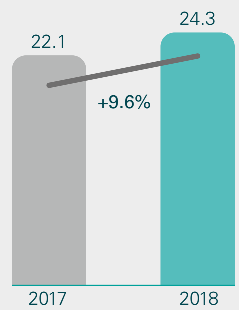
These clinics play a feeder role for the referral hospitals, so we expect their revenue growth to be slower going forward compared to the growth of referral hospital revenue.

21
Community clinics

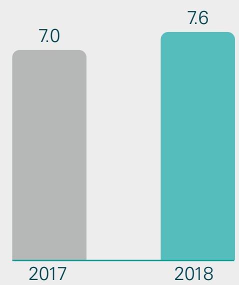
8%
Revenue share in healthcare services business

495
Number of beds

Revenue
(GEL million)



EBITDA
(GEL million)



Healthcare services – Polyclinics

Polyclinics provide basic and full-scale outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities and represents the first point of customer interaction, bringing additional referrals to our hospitals and pharmacies. In 2018, the revenue of pharmacies located in our polyclinics amounted GEL 4.1 million.

To consolidate our position as the largest player in the highly-fragmented outpatient market in Georgia we added two polyclinics at the end of 2017 and one in 2018.

By the end of 2018, we entered the dental market and started to launch dental clinics within our polyclinics. The service fits into our existing business model ideally and is synergistic to our polyclinics business, being the primary healthcare service provider, and to medical insurance business as well. Currently, dental clinics are set up at eight of our polyclinics. We plan to add several dental clinics in existing polyclinics, located in Tbilisi and in other major cities of the country. We expect dental clinics to be the beginning of another strong area of revenue growth over the next few years, strengthening our belief that the polyclinics business will become one of the largest sources of future growth.

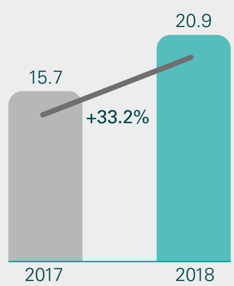
c.150,000
Number of registered patients in Tbilisi

16
Polyclinics

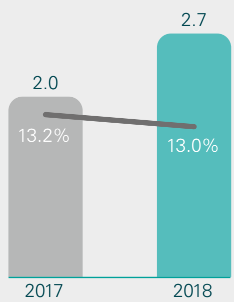
7%
Revenue share in healthcare services business

8
Dental clinics

Revenue
(GEL million)



EBITDA and EBITDA margin
(GEL million)



Pharmacy and distribution

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

The pharmacies are located in Tbilisi and other major regional cities. The total number of bills issued at our pharmacies exceeded 27 million in 2018, making us the country's largest retailer in terms of both the revenue and the number of bills issued. Our scale of operations gives us a bargaining power over suppliers to extract procurement synergies, reflected in strong margins, posting 25.5% gross profit margin and 10.1% EBITDA margin in 2018. Consequently, it also helps us share the synergies with the local population by providing affordable pricing on key products, as well other small pharmacy chains through wholesale business. Furthermore, pharmacy and distribution business is a pure out-of-pocket business favourably diversifying the Group's revenue stream.

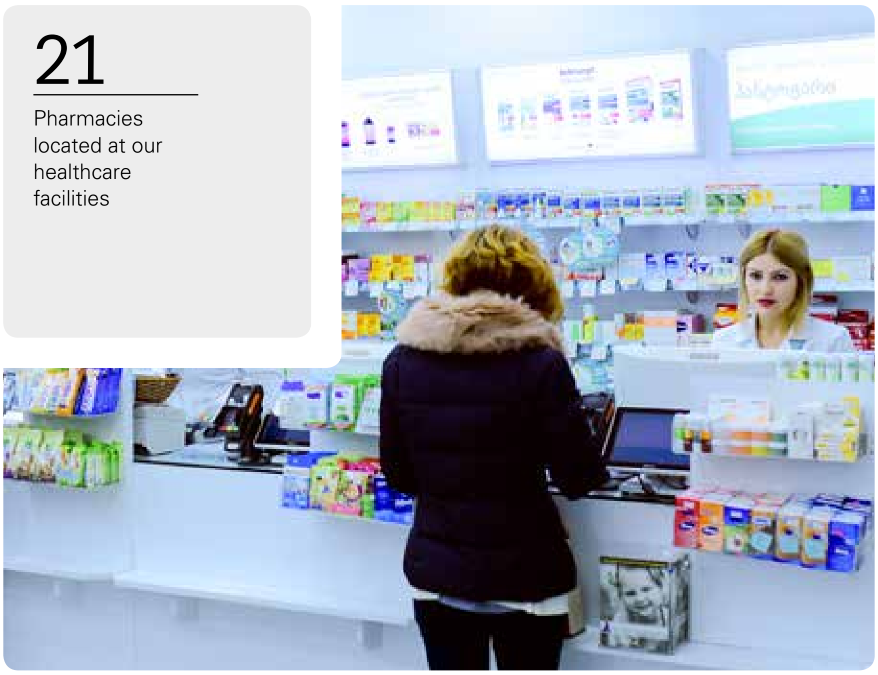
We are also constantly working on improving the product mix in our pharmacies and enhancing our position in private label segment. Currently 37 private label medicines are offered at GHG pharmacies and we are working on to increase this number. In 2019, we will also introduce our first private label personal care products under the brand name Attirance, which will include a wide range of personal care products.

c.700,000

Members of loyalty programme

21

Pharmacies located at our healthcare facilities



270

Pharmacies

2.3

Monthly customer interaction

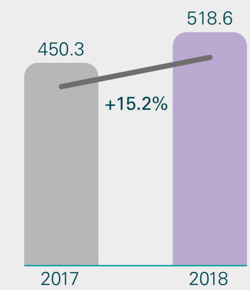
GEL 13.4

Average bill size

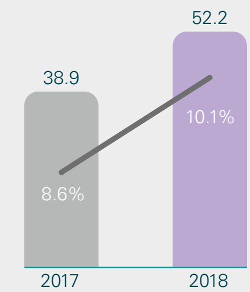
30%

The share of parapharmacy sales in retail revenue

Revenue
(GEL million)



EBITDA and EBITDA margin
(GEL million)



Medical insurance

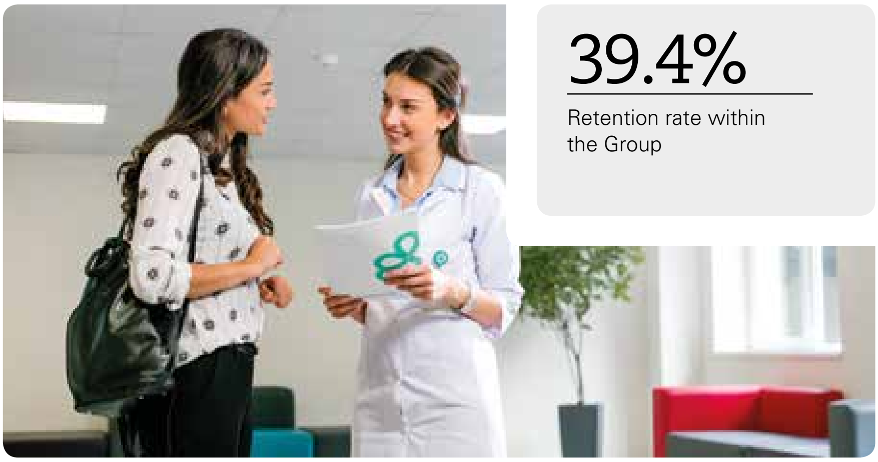
Our medical insurance business offers a variety of medical insurance products to the Georgian population, with a wide distribution network.

We offer a broad range of comprehensive private medical insurance policies that customers can opt for instead of relying on the coverage provided under the UHC and other state-funded healthcare programmes. Our products are mainly offered as corporate packages to large employers.

The business plays an important feeder role for healthcare services and pharma businesses. We operate 12 branches and service centres of our medical insurance business in a number of cities and towns across Georgia.

We have been adjusting the business model of our medical insurance business since 2013, when UHC was introduced and transformed the landscape. Last year we also started new initiatives to adapt to the changes in the UHC introduced in 2017 that had a favourable effect on the 2018 results, when the business started to stabilise its earnings and contribute to the Group's overall performance.

By the end of 2018, the business won two large tenders, retaining the country's largest insurance client – the Ministry of Internal Affairs ("MIA") with c.75,000 insured, and acquiring a significant new corporate client – the Ministry of Defence ("MOD") with c.60,000 insured. Adding new customer base supports our business expansion strategy. With the increased client base, GHG's insurance business became the largest private payer in the healthcare sector, securing further growth and significant synergies across the Group.



39.4%
Retention rate within the Group

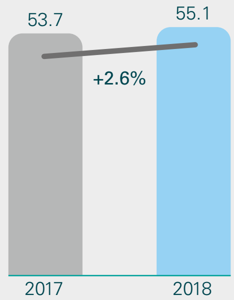
1 As of February 2019.

230,000
Insured clients[1]

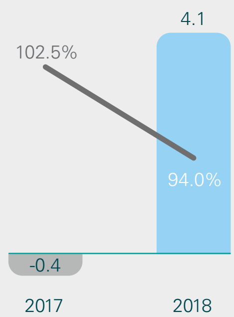
69.7%
Renewal rate

77.3%
Loss ratio

Revenue
(GEL million)



EBITDA and combined ratio
(GEL million)



Diagnostics

In December 2018, we completed construction and opened Mega Laboratory ("Mega Lab"), the largest diagnostics laboratory in Georgia and the entire Caucasus region. Mega Lab is an important new business line for the Group.

The multi-disciplinary laboratory, equipped with latest infrastructure and state-of-the-art equipment, covers 7,500 square metres. High-capacity automated systems enable GHG to provide accurate, high-quality results to the entire population of the country. In addition to basic laboratory tests, the new laboratory allows us to offer complex tests for oncology and molecular lab, some of which have never been available in Georgia and for which blood samples used to be sent abroad. The launch is in line with our strategy to invest in and develop new medical services to keep filling existing service gaps in the country, supporting the market's continuing development and our service export strategy.

Before opening Mega Lab, the most of the Group's healthcare facilities had their own laboratory units. Currently, our high-tech laboratory collects samples from the Group's hospitals and polyclinics throughout Georgia. The test results are distributed automatically to each hospital and polyclinic within the Group, through the internal Laboratory Information Management System ("LIMS"), enabling us to be far more efficient and provide a reliable service to our patients. As the Group's internal demand covers only one-third of the laboratory's capacity, Mega Lab plans to develop a retail network and to work on additional external contracts, contracting and serving healthcare facilities outside the Group.

The project is supported by our colleagues from Jordan, Biolab, a subsidiary of IDH Group, who have several years of experience in this field. Biolab is the only laboratory in the Kingdom of Jordan that has received JCI accreditation as an independent laboratory, and will support Mega Lab to get the same accreditation over the next few years. They have conducted training and knowledge sharing for our personnel and have created an initial technical base.

Mega Lab

Basic tests performed at Mega Lab, include:

- Biochemistry
- Haematology
- Haemostasis
- Hormone testing
- Cardiac marker
- Tumour marker
- Immunology
- PCR-parasitology
- PCR-viruses

Laboratory tests introduced in the region for the first time, performed with the latest technologies, include:

- Electrophoresis
- Flow cytometry
- PCR-genetic
- PCR-microbiology

c.50

Intend to develop retail blood collection points in coming years

Investing in elective care services

Improving medical services quality and filling existing service gaps in the country, thereby preventing Georgian patients from seeking treatment abroad as well as attracting foreign patients.

Over the past few years, GHG has relentlessly worked to increase the overall quality of medical care and develop new services to close existing service gaps in the country and, in doing so, fulfilling its mission to provide Georgian citizens with access to high-quality treatment without leaving the country. There have been some underdeveloped medical services for which Georgian patients have had to travel abroad, with the annual tourism outflow exceeding US$100 million annually. While much remains to be done, GHG has elevated the standard of medical care in the country through continuous investment in high-technology equipment and strengthening local capabilities.

We are fully focused on and continuously engaged in the process of rolling out new services at our referral hospitals to close the remaining gaps and strengthen our position in elective care services throughout the country.

In the past three years, we developed more than 120 new services in our hospitals – both basic, such as ophthalmology, cardiology and others, and sophisticated, such as liver and bone marrow transplantation. This will remain our top priority in the coming years.

Cardiology

Reduced incidence of death from heart failure and increased life expectancy in the country are the positive trends, we believe, our healthcare business has contributed to greatly through introduction and implementation of cardiovascular services. In recent years, we developed a number of cardiovascular intervention services and cardiac surgeries throughout the country.

According to the National Centre for Disease Control and Public Health, cardiovascular diseases are the leading cause of death in Georgia (69% of total deaths are associated with cardiovascular diseases), with c.533 deaths per 100,000 people in 2017 down from c.645 a decade ago. Although the number remains high, the main drivers behind the recent positive trend include a decline in the prevalence of cardiovascular risk factors, such as uncontrolled hypertension through improved healthcare services, medications and quality care.

The Group's investment in the new infrastructure, latest technology and quality have resulted in a successful expansion of cardiovascular service delivery to communities, where access to convenient, quality care was difficult or non-existent. The Group has spent around GEL 5.0 million to equip our healthcare facilities in Tbilisi, Batumi, Kutaisi, Zugdidi and Khashuri (Khashuri Referral Hospital serves the population of Akhaltsikhe and Akhalkalaki) with the most up-to-date cardiac catheterisation laboratories, allowing us to conduct timely stenting for ischaemic heart disease significantly reducing the risks of disability and sudden death.

The cardiac departments in our newly-launched hospitals, the Regional Hospital and Tbilisi Referral Hospital, as well as in Kutaisi Regional Referral Hospital, furnished with the state-of-the-art cardiac equipment, are managed by the country's leading specialists, Georgian expat doctors. The team of qualified doctors, who have received medical training and working experience abroad, perform all kinds of cardiac services and, along with traditional medicine, offer ultra-modern approaches, including sophisticated invasive cardiac procedures.

The department of mini-invasive and high-tech development focuses on complicated cases and cardiac anomalies, enabling local population to receive quality cardio services without leaving the country.

Liver transplant

In 2014, through joint efforts of Georgian and foreign doctors, GHG successfully performed the first liver transplant at Batumi Referral Hospital. We were pioneers and the provider of this service in the country, capturing both local and international demand.

Successful liver transplantation significantly reduces mortality caused by chronic liver diseases. Liver transplantation is the only treatment of choice during End Stage Liver Diseases ("ESLD"). ESLD represent one of the high-priority issues for the World Health Organisation due to its alarming rates of morbidity and mortality worldwide.

Imaged a nine-year-old girl, the first paediatric liver transplant patient at our Batumi Referral Hospital.

To close the medical service gap that had existed in the country for many years, Batumi Referral Hospital was equipped with modern infrastructure and all the inventory necessary for liver transplantation. The investment required for a successful roll-out of the project totalled around GEL 1.0 million. GHG is providing this service to the local population, helping them avoid higher cost of treatment abroad. Recognising the importance of this service, the Ministry of Healthcare of the Adjara region started to finance liver transplantation for the region's population with a 50% co-payment.

Since the launch, our team of experienced and dedicated doctors, led by a prominent Georgian transplantologist, who has undergone different training courses in Belarus and India, have saved 24 lives and are continuing to improve the quality of life of our patients. Our statistics for patient survival and postsurgical complications correspond to the statistics of the world's leading transplantology centres.

We have recently introduced a paediatric liver transplant service at Batumi Referral Hospital and, by the end of 2018, carried out the first surgery. The transplantation was successfully performed on a nine-year-old girl, who had been given only two months to live.

Oncology

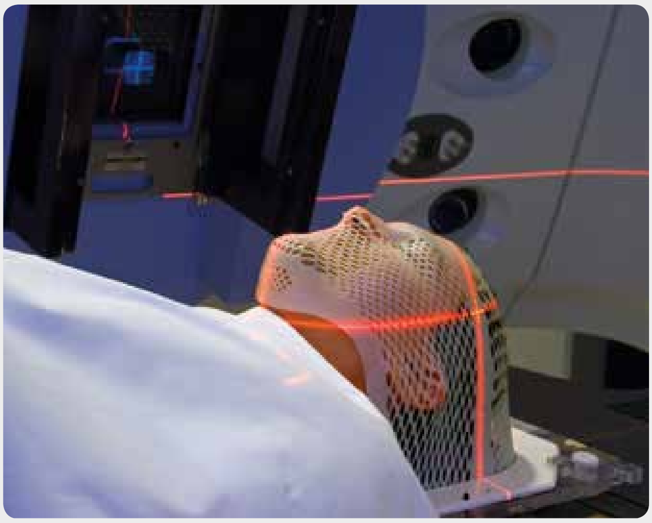
In 2015 we launched the largest Oncology Centre (the "Centre") at Kutaisi Regional Referral Hospital. Equipped with cutting-edge technology, the Centre represents the largest oncology healthcare facility in western Georgia. Our Oncological Centre is an eager participant in the National Screening Programme, which is financed by the state, and promotes early detection of oncological diseases. The total investment in the Centre amounts to more than GEL 17.0 million.

The National Centre for Disease Control and Public Health reports that cancer is the second-leading cause of death after cardiovascular diseases in Georgia (c.14% of total deaths are associated with oncological diseases). In the past three years, prevalence rates of oncological diseases declined from c.293 in 2015 to c.254 in 2017 per 100,000 people[1]. Screening programmes, which help detect cancer at early stages, introduction of effective diagnosis and treatment have contributed to this decline.

Our Centre offers individual approach and treatment to each patient and a wide variety of oncological services, including: diagnostics, radiation oncology, medical oncology, haematology and a full range of surgical oncology.

To properly address the most critical oncological cases, the Centre operates a special board of doctors who review cases and reach consensus on particular treatments. Along with local doctors, the members of the board include invited Georgian expat consultants from the US, Denmark, Germany and the Netherlands. Our leading specialists participate in international education programmes, including further training in the US.

Each department of the Centre serves hundreds of patients each year. It is due to a high level of professionalism of our doctors, the board involvement and the latest technologies that we manage to cure so many patients and retain the leading position in the field of oncology.



1 NCDC 2017.

New services continued

Bone marrow transplantation

In 2018, we introduced a comprehensive treatment, a bone marrow transplant, for patients with blood and bone marrow disorders at our High Technology Medical Centre University Clinic ("HTMC"). Before 2018, the service was not available in Georgia and patients with diagnoses such as leukaemia, severe blood diseases or multiple myeloma had to undergo treatment abroad. We, as a Group, are proud to have successfully filled the long-existing service gap in the Georgian market and are now the first and only provider of bone marrow transplants in the country, helping the local population avoid higher costs of getting treatment abroad. We have formed partnerships with foreign hospitals and our expert haematologist and oncologists work hand-in-hand with the foreign specialists to perform comprehensive procedures and treat many types of haematological or blood-related malignancies such as leukaemia, lymphoma as well as rare solid-organ tumours. The investment required for introduction of this service totalled around GEL 2.0 million.

Through joint efforts of our haematology team, extensively trained in Israel, and Israeli doctors, 50 adult autologous bone marrow transplants were performed at HTMC in 2018. As a next step, we are going to introduce bone marrow transplantation for the paediatric patients who suffer from leukemia or other blood, plasma or bone marrow diseases.

Neonatology

GHG is committed to developing neonatal services in the country, one of the most important fields of medicine, throughout its network. In recent years, we have invested around GEL 2.4 million to add more than 60 beds and upgrade neonatal units with modern medical equipment in our Tbilisi, Kutaisi, Batumi and Zugdidi hospitals.

For many years, the country has suffered from a shortage of and poor quality of neonatal beds. Infants with various pathologies have often faced fatal outcomes. Investing in this medical field has resulted in improved statistics, reducing the infant mortality rate by more than half over the last decade.

By increasing the quality and the number of neonatal beds from 140 to 205 in the past five years, GHG has gradually closed the existing service gap in the country. Nowadays, the premature infants or infants with other pathologies have easy and fast access to high-quality neonatal services. This field of medicine has proven one of the most successful for the Group.

The Newborn Intensive Therapy Department at Iashvili Tertiary Referral Hospital offers exceptional service and holds a leading position in the country. The department is led by an expat Georgian doctor, trained in US. This is the only department in the country that receives newborns with most severe complications. Our neonatal team does its best to save hundreds of babies each year.

Our collaboration with the Mayo Clinic has highly contributed to the development of the field. Experts from Mayo conducted trainings for our personnel and were engaged in developing trainers to provide further training and continuous development for our doctors.

Ophthalmology

GHG opened the country's most advanced ophthalmology department following the launch of its Regional Hospital. Entering the ophthalmology market was consistent with the Group's strategy to strengthen its position in elective care services. By providing the highest quality of treatment, within six months of service launch, while the department remained in its early roll-out phase, GHG was able to gain approximately 15% market share in ophthalmology, compared to the previously held share just under 3%.

To increase the service accessibility and meet the national demand, an ophthalmology department was also opened in Tbilisi Referral Hospital, serving the population of eastern Georgia. The Group's total investment in the ophthalmology market reached GEL 5.3 million.

The ophthalmology departments in both hospitals are furnished with the state-of-the-art equipment and provide a comprehensive 24-hour emergency care. Their unique diagnostic and surgical technology allow us to perform the most complicated procedures and promote service export.

The ophthalmology team is led by the country's first-class ophthalmologists contracted under the "Invest in Doctors" programme. The doctors who have been trained abroad ensure that the patients get the best quality care and regularly engage their personnel in international conferences to upgrade their skills and knowledge.

In vitro fertilisation service ("IVF")

In 2015, GHG set up its first IVF department. IVF services were underdeveloped locally and patients had to travel to abroad for treatment. The immediate goal for us was to offer IVF to those seeking treatment abroad and provide them with adequate healthcare quality, helping close the service gaps in the country. Thanks to a high degree of certification of our medical personnel, competitive pricing and up-to-date technologies, the department also attracts medical tourism patients, mainly from neighbouring countries, where IVF services remain underdeveloped.

The IVF department was launched at our Caraps Medline Hospital ("Caraps") to utilise its existing strong gynaecology practice and its recognised service quality. The investment required for the service reached GEL 1.2 million. The total monthly capacity of the department is up to 150 patients.

Apart from various tests and latest technology that help to achieve the desired outcome, the success of the department is highly dependent on its skilled personnel. A distinguished embryologist from Turkey was invited to set up the service at Caraps and develop a local team, which currently comprises five specialists. Prior to launching the service, key specialists of the team went through a period of extensive training in Turkey. Owing to dedication and expertise of this team, since the department was established, 447 children were born, translating into a 55% success rate.

Ensuring a high quality of medical care is essential for Georgia Healthcare Group

GHG is elevating the standard of care by introducing western practices and harmonising them across its integrated network through consistent protocols and procedures. Clinicians and nurses are being retrained and the next generation of residents are getting hands-on experience and learning in flagship facilities. Compliance is assessed in annual performance reviews. Coordination of care will be enhanced through new technology platforms.

Developing and implementing quality control measures on a larger scale in our healthcare facilities remains the key priority for the Group. To ensure standardised processes for providing high-quality care in all of our hospitals, the Group has developed the following quality objectives, based on national guidelines and the recommendations offered by international professional organisations:

- Ensuring effective quality management structure.
- Ensuring unified quality management approaches in the Group's healthcare facilities.
- Ensuring standardised clinical practice assessment tools based on unified measurements (quality KPIs).
- Continuous improvement on principles and methodologies through dedicated committees.
- Implementation of scientific approaches to quality management.
- Implementation of interdisciplinary approaches to problem-solving and encouragement of teamwork.
- Understanding and exceeding patient expectations.

Quality Management Programme

In 2015, GHG Quality Management Programme was created that relies on modern approaches to quality issues in healthcare. The main goal of the programme was to form a new quality management structure and frameworks based on methodical and comprehensive assessment of clinical practices. Major working policies and protocols were created based on national regulations and best practice principles.

The programme also defined specific lines of activities with the involvement of the Group's different employees, including clinical and non-clinical personnel. The programme covers the following lines of activities:

- Clinical risk management:
  - Overall safety
  - Loss control – case reviewing
  - Complaints management
- Quality control and improvement:
  - Clinical practice
  - Patient safety
  - Process standardisation
  - Customer satisfaction
- Hospital infection control and prevention:
  - Infection control and prevention
  - Infection surveillance and database
  - AMR and rational antibiotic therapy
  - Disinfection and sterilisation
  - Waste and laundry management
  - Construction and renovation supervision – infection control and safety risk assessment
- Implementation of electronic medical records ("EMR").

How quality management structure works

The Group operates 53 healthcare facilities, thus having an effective quality management structure is one of its key objectives. The quality working units and committees operate at both head office and referral hospitals level.

The head office Clinical Team establishes frameworks and protocols for the Group's healthcare facilities. These include general approaches to and a set of standards of quality. The team also defines the measures and indicators that each hospital should monitor and report to the local committees and to the head office. Measures and indicators (clinical quality KPIs) are selected according to the JCI quality standards, and based on each hospital's specific needs, ensuring that patients receive high-quality care. Through defined KPIs, we compare progress to previous findings and international benchmarks to identify the areas of improvement at each hospital.

To ensure better quality control at local levels, we have set up clinical working units and clinical committees at each referral hospital, responsible for execution of the defined quality control approaches and measures. Every working unit has a chief quality officer, a quality control specialist, an epidemiologist and a nurse specialising in the prevention of hospital infection. Clinical working units monitor the hospital quality KPIs and carry out their own analysis for centralised reporting. Collected data are further analysed by hospital committees, consisting of the clinical team and the hospital's management, and the results are sent to the head office clinical team for further consideration. At this stage, quality management activities at clinics are assumed by the head office Quality Team, with the supervision of the Chief Clinical Officer.

The Group also operates a Clinical Quality and Safety Committee at Board level, where basic principles and strategies are set. The Committee discusses systemic problems and identifies ways to improve them. The Committee also plans annual objectives and work agendas.

An effective model of quality management is an inseparable part of the modern healthcare system. Evidence-based attitude, safety strategy and audit are crucial elements for driving quality improvement.

Clinical risk management

Clinical risk management is crucial part of our Quality Management Programme. We are identifying the circumstances and opportunities that put customers at risk of harm and acting to prevent or control those risks to improve the quality and safety in our healthcare facilities. Clinical pathway audits, as well as case reviewing activities, take place in hospitals routinely, with the main focus being on mortality cases, malpractices, near-misses and claims. The quality management department is also engaged in the planning and designing stage of renovation projects of our healthcare facilities in terms of safety and infection control risks assessment. In 2018, an occupational safety framework was developed. As part of this framework, a set of actions were taken, including hepatitis B and C screening for our clinical staff network-wide and B hepatitis and influenza vaccinations.

Quality control and improvement

Based on the data collected at hospitals and clinical pathway audit results, the Group plans quality improvement projects. Early sepsis management, community-acquired pneumonia management, rational antibiotic use and surgery care improvement project are the currently ongoing improvement projects. Future projects will be selected based on the findings obtained by analysing the reported hospital data, reviewing medical cases and from clinical pathway audit results.

Hospital infections control and prevention: Epidemiology ("ICP")

We pay special attention to infections control and prevention at hospitals. 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. This area remains a priority and will be constantly monitored. In this regard, we closely cooperate with the representative office of the Centres for Disease Control and Prevention ("CDC") in the South Caucasus region. ICP trained nurses are attached to each hospital and, with the help of our epidemiologists, supervise the hospital infections control and prevention activities. Our staff are also engaged in developing national ICP guidelines and protocols.

Implementation of EMR

From the quality control perspective, it is important to have a proper medical record database. We have started to work towards a fully integrated health information system that will help us manage our customers more efficiently and deliver a better care to them. GHG will be the first healthcare company in the country to properly store and manage patients' full electronic medical histories. The EMR system will include a platform to report quality measures and indicators, which will further contribute to monitoring and improving the quality management process.

More than 300 protocols were developed between 2016 and 2018

GHG clinical quality training courses

In 2018, more than 30 training courses were dedicated to quality management including the topics of infectious control and prevention, TB prevention, root cause analysis and quality management. Around 30 training courses are planned for 2019.

People development

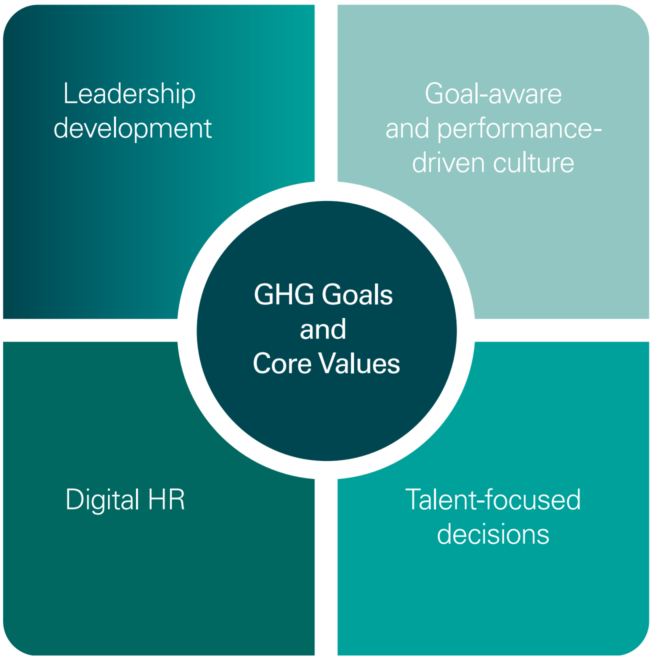
Human Capital Strategy 2019-2022

Attracting and developing the very best talent has always been our top priority. We have various leadership programmes that serve as a great platform for talent development and create culture of teamwork throughout the entire Group.

Human Resources ("HR") specialists and managers, together with C-level executives and the Board of Directors, have developed a new 2019-2022 HR strategy. The new HR strategy and values are in line with the Group's HR mission statement: "Developing and managing value-added human resources systems and programmes; providing expert consultation to enhance efficiency; providing our employees with necessary tools to meet our customers' needs; and driving managers towards cultural change".

In the next three years, the HR strategy will focus on four main pillars:

- enhancing leadership capacity of our managers and key personnel;
- continually improving individual and organisational effectiveness through value-added goals and management performance programmes;
- enhancing HR effectiveness through technology; and
- championing career and professional growth through an integrated talent management model of the Group.



GHG Leadership Development Programme

A GHG Leader makes efficient business changes, constantly develops his/her abilities and inspires the team for the future.

Our leadership strategy focuses on development of C-level and mid-level managers. By implementing our Leadership Programme, we expect to have a pool of managers for our succession planning to fill gaps in the management team.

C-level executives are constantly working on their personal development. Individual and team coaching programmes support us on our road towards change. Our future strategy focuses on two directions: (1) executive education and personal development programmes; and (2) succession planning programme for each C-level executive.

Leadership development for mid-level managers was launched in 2016 with the identification of "GHG Leadership Pool" consisting of 200 managers from all subsidiary companies of the Group. We have identified the main areas of improvement and, together with the Bank of Georgia University, created a 180-hour basic management course.

To further focus on leadership competencies, we conducted a 360-feedback review of our Leadership Programme participants in 2018. Based on the review, we identified areas of further improvement and created a Personal Development Programme that includes:

- a personal development plan based on the 360-feedback;
- a four-day team coaching programme fully funded by GHG; and
- a personal coaching programme with 80% funding from GHG.

Specially invited Georgian coaches led our managers through their personal change. As the programme kicked off to a successful start in 2018, our forecast for the next year is that 50% of the Leadership Programme participants will show their interest in Personal Development Programme. According to our plan, the programmes will continue in 2019-2022.

Goal-aware and performance-driven culture

Our vision of GHG Culture: "A big goal motivates us to perform well and deliver on our strategy. Teamwork and feedback sharing play a crucial part in business' better performance."

Inspired by the Objectives and Key Results ("OKR") methodology, we started to implement a new performance management approach. Our new approach is based on:

- communicating "the Big Picture" to our employees by cascading our vision and strategic goals and aligning them with our business lines;
- training managers in providing and receiving honest feedback; and
- planning quarterly goals and receiving feedbacks on quarterly performance.

We expect that the new methodology will improve transparency in decision making and better contribute to short and long-term business goals.

Digital HR programmes

Digital HR is a better partner for business and adds value to the Company performance.

In order to manage business workforce efficiently, we purchased five modules to use in the core processes of our human resource management: Human Resource Management System ("HRMS"), data management, recruitment management, training management, self-service portal and payroll management.

In the next three years, we plan to create digital space for the following HR solutions – talent, career, leadership and performance – so that we can be more efficient and properly address our business needs. We also intend to develop the following HR software modules to support our HR strategic goals:

- time and attendance module that will go live in 2019;
- development of a digital platform for talent management: 360-feedback and e-testing will be launched in 2019; and
- OKR – performance management and e-learning modules to be launched in 2020.

Talent-focused decisions

We transform and enhance the role and competencies of Georgian doctors, nurses, pharmacists and healthcare managers. To achieve this goal, we do our best to identify, retain and develop best talents.

We use the 9-Box Matrix talent management methodology to assess individuals on two dimensions: their past performance and their future potential.

Currently, we are at an early stage of the talent development system. Our goal for 2019 and 2020 is to prepare effective performance measurement and leadership potential identification tools. Our key professionals and the new generation are the main target group:

- key medical and pharmaceutical employees;
- young medical talents – our residents and nurses;
- young pharmacists; and
- GHG managers.

GHG educational programmes are our main external talent acquisition tools. These programmes serve several goals: creating quality educational programmes, attracting top students, funding and empowering educational institutions, and giving grants to students with long-term employment agreements within GHG. Since 2015, we have developed various such programmes:

- Residency Programme – specialised post-graduate education for doctors;
- Basic Nursing Course – a 140-hour programme for our newcomer nurses;
- Nursing College – a joint project of Evex and David Tvildiani Medical University; and
- Partnership with nursing and pharma colleges by funding their programmes and attracting students.

We also plan to introduce GHG Young Talents programme. The programme will aim to identify and attract young talents for the Group's various functions – Informational Technology ("IT"), HR, finance, logistics and operations, and train them using our internship, mentoring and coaching tools.

From capex to cash flow – Healthcare services business

From the capital expenditure perspective, we have now completed our three-year investment programme aimed at creating high-quality care facilities with the necessary capacity to serve our patients.

Over the past three years, the Group engaged in sizeable development projects with considerable investment in our healthcare facilities. The major projects of the investment programme, declared at IPO in November 2015, are now finalised. These projects include renovation and development of acquired healthcare facilities, Regional Hospital and Tbilisi Referral Hospital, financing expansion and enlarging the network of polyclinics, and investing in the development of different elective medical services across the Group's hospitals.

Thus, in recent years, the healthcare services business has been in a roll-out phase. The 2018 performance reflects a significant progress against the investment programme and towards the business' strategic priorities. Much of the heavy lifting has now been completed, and we are starting to see the benefits materialise. The business has completed the heavy capex programme and, going forward, our focus will remain on the successful roll-out of newly-launched hospitals, polyclinics, laboratory and services as well as better utilisation of our facilities.

From a capital expenditure perspective, we have now completed our principal development projects (GEL million)

6
new polyclinics

Polyclinics expansion

Accelerated expansion of the polyclinics network, opening six new polyclinics, four in Tbilisi and two in major regional cities.

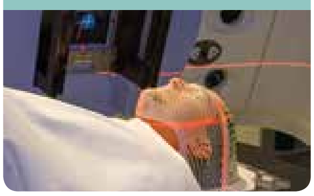
Started renovation works at the Regional Hospital and Tbilisi Referral Hospital.

2016

New services

Launched 64 new services in 14 different referral hospitals.

64
new services



2
new polyclinics

Polyclinics expansion

- Acquired a polyclinic in Tbilisi with c.31,000 registered patients.
- Opened new polyclinic in Tbilisi.

Acquired Khashuri Referral Hospital and Kareli Community Clinic, the only healthcare service providers in the Shida Kartli region.

2017

New services

Launched 54 new services in 11 different referral hospitals.

54
new services

Opened new referral hospital

Opened Tbilisi Referral Hospital with newly-renovated 332 beds.

332
newly-renovated beds

Mega Lab
diagnostics

Mega Lab

Completed construction and opened Mega Lab, the largest diagnostics laboratory in the entire Caucasus region.

Opened a polyclinic in Tbilisi.

2018

Launched 26 new services in 15 different referral hospitals.

Largest development

Completed our largest development and renovation project and launched the flagship Regional Hospital with 306 newly-renovated beds.

306
newly-renovated beds

Industry and market overview

Georgia's macro overview

Reform-driven success

Georgia has carried out genuine economic and structural improvements which have been institutionalised. As a result, corruption has decreased, starting a business has become second easiest in the world, productivity has been enhanced and the economy diversified – enabling the country to withstand global financial crisis and recent external shocks. Georgia is consistently ranked as one of the top performers in governance and doing business indicators. Georgia, with a ranking of 6th in Ease of Doing Business, is characterised as the top performing economy in the region to start a business. Furthermore, Georgia is ranked 16th out of 180 countries by Index of Economic Freedom measured by Heritage Foundation in 2018, and 27th out of 200 countries in the Trace International's 2018 Matrix of Business Bribery Risk. Georgia is a positive exception to the trend of high bribery rates in the regional economies and is on a par with European Union ("EU") member states with only 7% of people admitting having paid a bribe, according to the 2017 Global Corruption Barometer study by Transparency International.

As of January 2017, corporate income tax for non-banking and non-insurance corporations is applicable to only distributed profits; undistributed profits, reinvested or retained, are exempted. Georgia has one of the world's friendliest tax regimes according to the Forbes Misery Tax Index, having slashed the number of taxes from 21 in 2004 to just six currently.

In September 2017, Moody's upgraded the sovereign credit rating of Georgia to Ba2 from Ba3 and maintained the stable outlook. On 22 February 2019, Fitch upgraded the sovereign credit rating of Georgia to BB from BB- with the stable outlook. Based on Fitch, the Georgian economy proved resilient to a severe economic shock in Turkey and heightened sanctions risk in Russia in 2018, thanks to a diversification of sources of current account inflows, the floating exchange rate and prudent fiscal and monetary policy settings, underpinned by steadfast adherence to its IMF programme.

The growth-oriented Government programme (2018-2020) focuses on structural reforms, education and large infrastructural projects to promote Georgia as a transit and tourism hub and to enhance long-term growth. New pension law was adopted in 2018 enhancing long-term fiscal sustainability, supporting capital market development, increasing replacement rate, narrowing current account deficit and rising potential output.

Georgia is the second country in the world, after Switzerland, with FTAs with both EU and China

The EU-Georgia Association Agreement, that came into force in July 2016, and related Deep and Comprehensive Free Trade Agreement ("DCFTA"), effective since September 2014, lay solid groundwork to improve governance, strengthen the rule of law and provide more economic opportunities by expanding the EU market to Georgian goods and services. A visa-free travel to the EU, granted to Georgian passport holders in March 2017, is another major success of the Georgian foreign policy. FTA with China effective from 2018 and FTA with Hong Kong signed in June 2018 increases opportunities to further accelerate exporting markets and to attract investors by offering business-friendly environment, high governance and access to 2.8 billion population market without customs duties.

One of the fastest-growing economies in the region

Trust in Georgia's growth model was demonstrated by record-high reinvestment by foreign companies in 2018. Despite the financial market turbulence in trading partners' markets, Georgia remained resilient with inflation at 2.6% in 2018 – very close to the National Bank of Georgia's target of 3.0%. The real GDP growth was 4.7% in 2018, averaging 4.5% annually during 2008-2017. The IMF expects real GDP growth to average 5.1% annually in 2019-2023, making Georgia the fastest-growing economy in the region.

Georgia is already an established tourism destination. The tourism sector is important part of Georgian economy and is its fastest-growing industry and major source of foreign currency inflows. The sector is a major driver of service export and largest contributor to shrink the current account deficit, which reduced from 8.8% of GDP in 2017 to 7.7% in 2018, according to the preliminary numbers. The number of international travellers to Georgia increased on average 17% over 2012-2018. Despite the tensions and economic slowdown in our major trading countries, international traveller trips increased significantly 8.7 million and brought nearly US$3.2 billion in 2018. Tourism outlook remains positive as market diversification continues.

Healthcare services market overview

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

According to the World Health Organisation ("WHO"), total health expenditure in Georgia in 2000-2014 has demonstrated one of the fastest growth dynamics among the peer group of countries[1] with CAGR at 11.5%. In relative terms, expressed by health expenditure as percentage of GDP, Georgia achieved the level of key developed economies (c.9% in 2018), which is above most of the peer emerging economies. However, there still remains a vast potential for further increase since Georgia has one of the lowest per capita expenditures on healthcare among the benchmark countries. Healthcare spending per capita is currently at a very low base of only US$324[2], with annual outpatient encounters of 3.5[2] per capita and a hospital bed utilisation rate of only 53%[3], all significantly lower than many comparable countries. Management believes that there are strong prospects for growth in healthcare expenditure driven by both supply and demand.

Hospital beds

Notwithstanding a significant improvement in the bed occupancy rate, from 30% in 2003 to 53% currently, there is still potential to increase efficiency in order to align Georgia with best practices (c.70%). The improved efficiency should mainly come from market consolidation. New legislative initiatives are being developed (slower than we anticipated) by the state to define hospital types and introduce Key

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

Performance Indicators ("KPIs") for service providers. It is also expected to increase the quality of services for patients since only the providers who have enough experience would cater to the population within the UHC.

- The number of GHG's beds is growing in line with its expansion strategy.
- Increased competition is mainly coming from small and medium-sized hospitals.

Bed market dynamics	2016[1]	2017[2]	2018[3]
Total number of beds	10,948	12,284	13,352
Competitors	8,391	9,270	10,032
GHG	2,557	3,014	3,320
GHG market share	23.4%	24.5%	24.9%

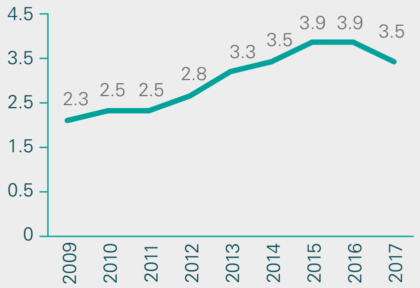
Polyclinic (outpatient)
The number of outpatient encounters per capita has increased over the past decade from 2.0 in 2007 to 3.5 in 2017, but remains still low compared to the EU and the CIS, with average encounters of 7.0[4] and 8.9[4], respectively.

The outpatient clinics segment remains highly fragmented (with none of GHG's competitors having more than 1% of the market, with Group's own market share at c.3%) and underdeveloped in Georgia for several reasons. Historically, patients in Georgia have preferred hospitals, which are associated with a better reputation and a higher quality of services. The widespread practice of self-treatment and low health awareness also contribute to a lower number of outpatient visits as compared to the developed countries. In the next few years, however, the trend may reverse, since the Government is aiming to pay more attention to this segment, increase administrative oversight on prescriptions practice and favour primary care, which is expected to provide a boost for the number of outpatient visits.

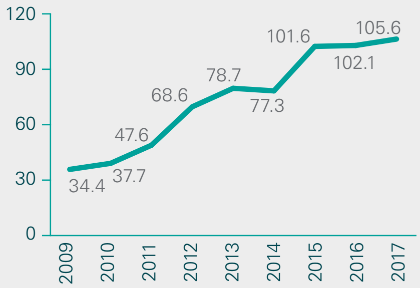
Progress in Georgia in respect of the provision of inpatient and outpatient services over the last decade

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

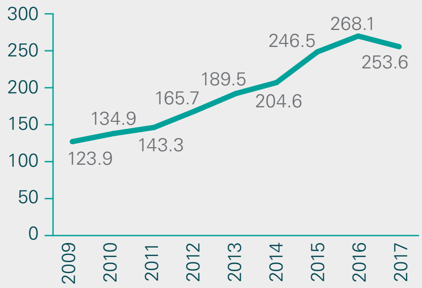
Outpatient visits per capita, Georgia



Number of surgical operations at outpatient, Georgia *(thousands)*



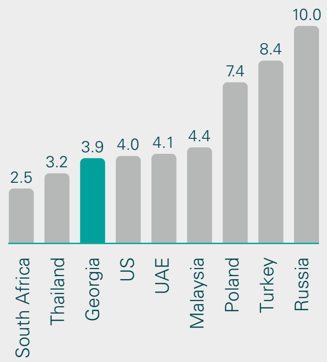
Number of surgical operations at hospitals, Georgia *(thousands)*



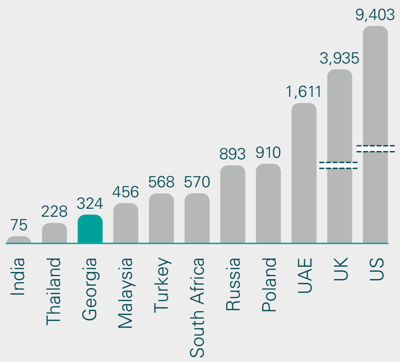
Source: NCDC

Long-term, high-growth prospects

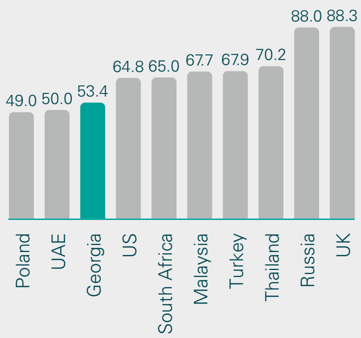
Outpatient visits per capita by country, 2014-2016



Per capita expenditures on healthcare by country, 2014-2016



Bed occupancy rate by country, 2014-2016 *(%)*



Source: Frost and Sullivan.

1 NCDC, data as of December 2015, updated by GHG to include the changes before December 2016; excluding speciality beds.
2 NCDC, data as of December 2016, updated by GHG to include the changes before December 2017; excluding speciality beds.
3 NCDC, data as of December 2017, updated by GHG to include changes before 31 December 2018; excluding speciality beds.
4 WHO 2014-2015.

Industry and market overview continued

Government healthcare financing
Since the introduction of the UHC, its budget more than doubled from GEL 338[1] million in 2014 to GEL 704[1] million in 2018, accounting for 65% of all state healthcare expenditure. For 2019, the UHC budget is projected at GEL 754[1] million. Elective inpatient services and emergency services constitute the major part of the UHC budget, while outpatient services have a limited coverage.

The remaining 35% of 2018 state healthcare budget is allocated to vertical healthcare programmes, such as dialysis and cancer screening.

Pharma market overview

The Georgian pharmaceutical market is highly dependent on imports. The share of locally-produced drugs on the market is 12% as opposed to only 5% in the early 2000s. There are over 90 pharmaceutical importers in Georgia, but c.75% of all imports are performed by three companies: GEPHA (c.32%), PSP (c.27%) and Aversi (c.18%). Domestic production is represented by over 20 companies and is dominated by two players with c.90% of the total production volume in the country.

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

The current per capita pharmaceutical expenditure in Georgia stands at US$107[2] (excluding parapharmacy products), which puts Georgia in the middle among the countries in the peer group. According to a market research by Frost & Sullivan, generics account for 61% of the total market revenues, which corresponds to the EU average (c.50%). The market opportunity for generics is still considerable – in the leading economies like Germany and the UK, generics hold a dominant share of more than 80% (in the reimbursed segment).

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

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

Medical insurance market overview

During the past decade, the private medical insurance market expanded significantly compared to the 2006 figure, when only 40,000 Georgian citizens (or c.1% of the total population) had a voluntary medical insurance package, mostly provided as part of a corporate benefits programme. There were c.554,000 PHI policies in force by the end of September 2018. The corporate segment accounts for the major portion of the PHI market – 95% of all policies are acquired by employers and the rest (c.29,000) are purchased by self-paying individuals. In Georgia, private health insurance is primarily intended to provide value-added services in the form of more extensive coverage or more convenience for the patient.

Diagnostics market overview

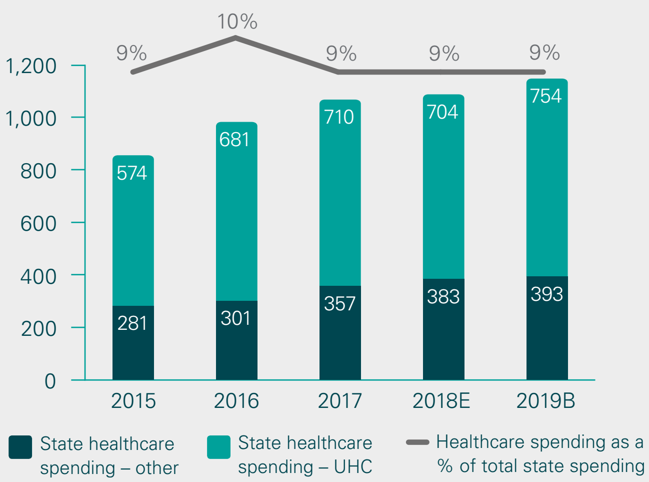
The laboratory and diagnostic services market in Georgia is also highly fragmented. Along with large market players, such as Synevo Medical Laboratory, Cito Medical Centre and European Limbach Diagnostic Group, there are multiple smaller service providers. Moreover, almost every polyclinic (outpatient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

The newly-opened GHG Mega Lab, the largest diagnostics laboratory not only in Georgia but in the entire Caucasus region, will be the first to offer a full set of clinical and pathology tests, some of which are being introduced in the region for the first time. For more information about Mega Lab please read page 17.

Government healthcare financing

- In 2018, the total healthcare market is estimated at GEL 3.8 billion.
- The country's expenditure on healthcare – c.9% of GDP.
- C.30% of total healthcare expenditure is financed by the state.
- Government expenditure on healthcare as a % of GDP reached c.3% from 1.6% in 2013.
- Government spending on healthcare accounts for c.9% of the total budget.

State financing of healthcare *(GEL million)*



1 Ministry of Finance of Georgia.
2 Frost & Sullivan analysis 2017.

Healthcare market size

Georgia's healthcare services market (including hospitals, polyclinics and pharma) was estimated to be worth GEL 3.8 billion in 2018. The market maintained a strong compound growth momentum of 14% between 2011 and 2017, and is expected to continue growing at 8% between 2018 and 2021.

- The total hospital market was estimated at GEL 1.4 billion in 2018, while the addressable market[1] was estimated at GEL 1.3 billion. The total hospital market is forecast to grow at a compound annual growth rate of 7% between 2018 and 2021.
- The polyclinic market (outpatient market, excluding the revenue from dental and aesthetic services) was estimated at GEL 0.7 billion in 2018 and is forecast to grow at a compound annual growth rate of 10% between 2018 and 2021.
- The total pharma market was estimated at GEL 1.6 billion in 2018 and is expected to grow at a compound annual growth rate of 9% between 2018 and 2021.

Healthcare service providers (both state and private) generate revenue from out-of-pocket payments (including fee-for-service and the UHC co-payments), transfers from state healthcare programmes and payments from private medical insurance companies. Pharma companies' revenue generation is primarily driven by out-of-pocket retail revenue of the pharmacies, together with wholesale revenues from hospitals, insurance companies and the state. Medical insurance companies depend on revenues from medical insurance policies purchased by employers for their employees and by individuals for their own use. Out-of-pocket expenditure on healthcare in Georgia still exceeds public financing and private insurance. The share of out-of-pocket expenditure in total healthcare expenditure in Georgia was 61% in 2016, the share of Government expenditure was 37% and the remaining 2% came from other sources[2].

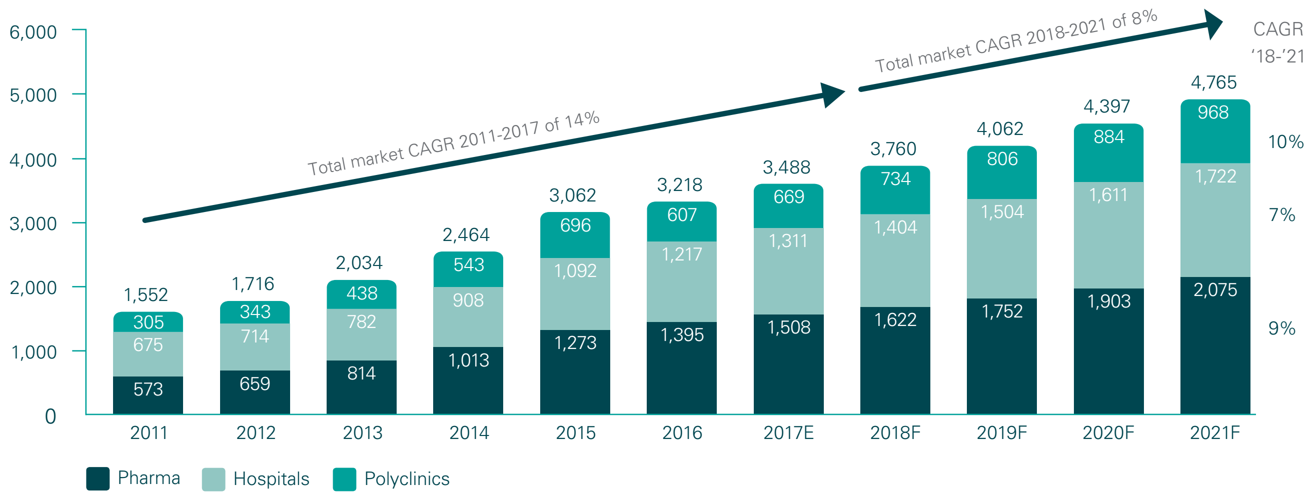
Outlook and main growth drivers

As described above, the Georgian healthcare market has shown double-digit growth in recent years, estimated at GEL 3.8 billion in 2018 and forecast to reach GEL 4.8 billion by 2021. The hospital segment accounted for 37% of all revenues generated in the 2018 healthcare market, outpatient clinics 20% and pharma 43%.

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

- **Population income growth and rising health awareness.** Economic growth in Georgia is expected to outperform most of the developed and CIS countries – the IMF forecasts annual average real GDP growth in Georgia at 5.1% in 2019-2023 and per capita GDP is expected to surpass US$6,000 in 2022, the highest in the Caucasus region. Rising population incomes and awareness supported by Government efforts to develop preventive medicine will create growth opportunities for the polyclinic segment.
- **Filling the service gaps – growth of private investment in technology and equipment.** While Georgia has achieved significant success in certain fields of healthcare, some areas remain underdeveloped and there are a number of service gaps in the country. Many laboratory tests are still performed abroad. There are two PET/CT scanners in Georgia, while at least four are required to comply with the WHO recommendations. There are also shortages 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 pH meter units, Intraoperative Neurophysiology and navigation systems in Neurosurgery. Private investment in high-technology equipment should strengthen local capabilities, increase the number of procedures and improve the quality of care.
- **Growth in the number of outpatient visits.** Georgia lags behind most of the developed countries in terms of the number of outpatient visits per capita. This is partially explained by cultural differences (practices of self-treatment, distrust of outpatient service providers). However, with growing private investment in this segment, expected market consolidation and Government support, the market will see growth in outpatient visits, which will positively impact the polyclinics' revenues.

Growth in healthcare market expected to continue *(GEL million)*



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

1 GHG estimate – total market adjusted to exclude the revenue from specialty beds.
2 NCDC 2017.

Industry and market overview continued

- Growth of hospitalisation rates. There is at least 15% growth potential in hospitalisation rate, which is likely to depend on market consolidation, the pace of introduction of new technologies and development of local skills.
- Supportive Government healthcare policies. Since its introduction in March 2013, the UHC has made basic healthcare available to the entire population and is expected to maintain increase in demand for medical care, particularly hospital services. The Government budget on healthcare is expected to grow in line with the country's nominal GDP growth rate. For 2019, UHC budget is up 7% and total healthcare budget up to 6% y-o-y.
- Growing awareness of the benefits of medical insurance among the population in Georgia. This may lead to a greater demand for private medical insurance from employers and self-paying customers who seek better quality services, quicker treatment or more advanced procedures than are covered within the UHC framework. However, the new Government initiative introduced in 2017 – excluding individuals with annual income of over GEL 40,000 (c.32,000 people) from the UHC coverage and granting a limited UHC coverage to middle-income citizens, i.e. those with an income of over GEL 1,000 per month but under GEL 40,000 per year (c.400,000 people) – is intended to make the UHC spending more efficient and may potentially expand the private medical insurance market.
- Strong growth in healthcare expenditure. On a per capita basis, healthcare spending remains low compared to certain emerging market peers (such as Malaysia and the UAE) pointing to further growth potential. At the same time, economic growth and rising disposable incomes of Georgian citizens, including those living outside the capital city, should also lead to higher spending on pharma and healthcare services, particularly considering the potential increase of corporate medical insurance plans for employees.
- Demographics. The country has an ageing population, with an increasing proportion of its citizens aged over 60 (as per the latest UN Population Division data, the share of people aged 60+ in Georgia will increase to 24% by 2025 from 20% in 2015), who will require more frequent, better and prolonged treatments. Increasing incidence of certain lifestyle related diseases (hypertension, ischemic heart diseases, cerebrovascular diseases and diabetes) will also boost demand for medical care and medicines. In addition, healthy fertility rates will drive demand for obstetric and childcare services.
- Development of medical tourism in the medium to long term. Improving facilities and standards have the potential to develop health tourism by attracting the citizens of the neighbouring countries and, conversely, retaining the Georgians currently seeking treatment overseas in the long run. The country is also highly price competitive compared to other medical tourism destination countries and possesses unique natural resources (climate, mineral waters). The number of tourists in Georgia reached a record high of 4.8 million in 2018, up 16.9% y-o-y. Some potentially attractive segments for medical tourism may be IVF, plastic surgery, ophthalmology, transplantology, orthopaedics and oncology.

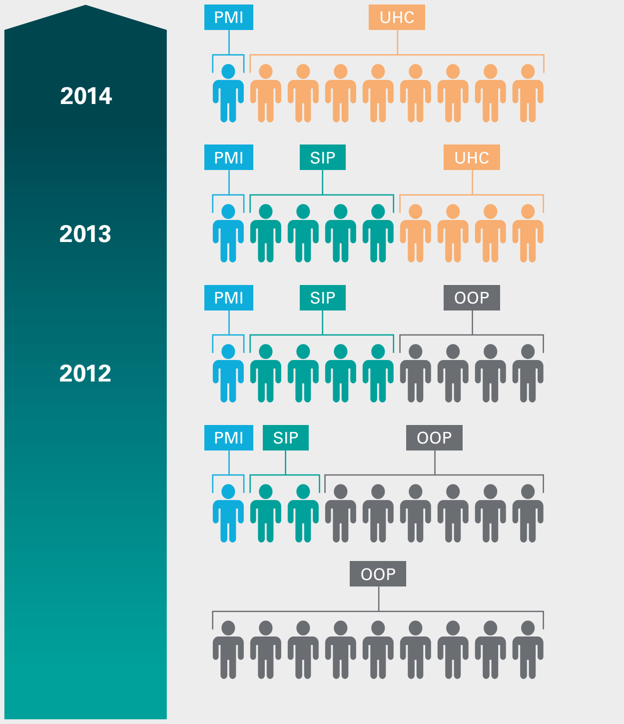
Universal healthcare ("UHC") programme

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

Key principles of UHC programme

Overview	• The UHC was introduced in February 2013 and replaced most of the previously existing state-funded medical insurance plans. • The main goal was to provide basic healthcare coverage to the entire population.
Financing and top-up mechanism	• UHC is fully financed by the Government. • UHC doesn't reimburse 100% of costs in most cases, leaving substantial room for out-of-pocket payments by patients.
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.

Healthcare coverage of Georgia's 3.7 million population



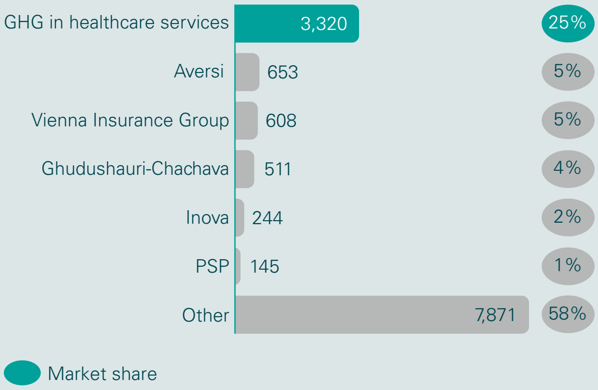
OOP, Out-of-pocket
UHC, Universal Healthcare Programme
PMI, Private Medical Insurance
SIP, State Insurance Programme
PMI, UHC, SIP include co-payments

Market competition

Hospitals and clinics

Both state and private healthcare providers (clinics and hospitals) compete in the Georgian market with private providers accounting for the vast majority of the country's total supply. The market is relatively fragmented, with the six largest competitors (all of which are private) accounting for only c.40% of the total number of beds in the country. This may indicate further growth potential for both new and incumbent market participants through mergers and acquisitions. The outpatient clinics market is even more fragmented and no competitor controls more than a 1% market share, with the Group's own market share at 3%. Therefore, it is likely that there will be further consolidation and emergence of a large participant in the market via mergers and acquisitions.

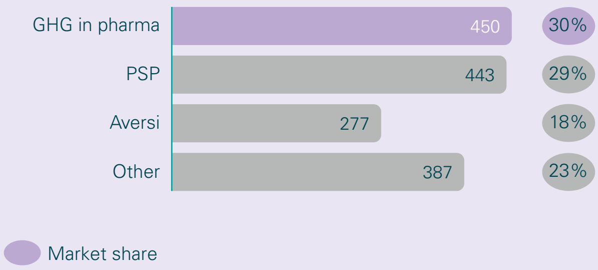
Referral hospitals and community clinics
(Number of beds as of December 2018)[1]



Pharma market

The pharmaceutical market in Georgia is highly concentrated, three major players holding approximately 75% of the market share. Two main competitors in the pharma market are also present in the hospital and medical insurance markets, with much smaller market shares than GHG. GHG therefore remains the only large player across all these markets as the competitors have not managed so far to establish scalable businesses in all respective sectors.

Pharmacy and distribution
Revenue in 2017 (GEL million)[2]

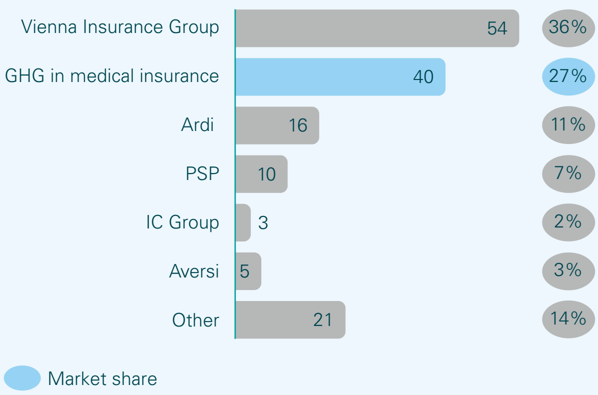


Medical insurance market

As of 30 September 2018, c.554,000 voluntary medical insurance packages have been reported to the Insurance State Supervision Service of Georgia. The Georgian insurance market is represented by 17 companies, 12 of which operate in the health insurance segment. The market is highly concentrated, with top three companies holding a c.75% market share by Gross Premium Revenues ("GPR").

After winning the recent tenders and increasing its client base starting from 2019, our medical insurance business gained more than one-third market share by revenue and became the Country's largest medical insurer.

Medical Insurance
Gross premium revenue in 9M18 (GEL million)[3]



1 NCDC, data as of December 2017, updated by GHG to include changes before 31 December 2018; excluding speciality beds.
2 Total market Frost & Sullivan analysis 2017.
3 ISSSA – market as of 30 September 2018.

Our strategy

Performance against strategy 2018

Georgia Healthcare Group

Growth and return	• Double-digit revenue growth – up 13.7% y-o-y. • Double-digit net profit growth – up 15.9% y-o-y. • Increasing operating cash flows – an increase of 71.0% y-o-y with 75% EBITDA to cash conversion ratio, up 21.4 ppts y-o-y. • ROIC up 0.2 ppts to 11.0%; adjusted ROIC (excluding newly-launched hospitals and polyclinics that are in roll-out phase) up 1.1 ppts to 13.9%.
Expansion	• Successful completion of three-year investment programme. • Opened the country's largest diagnostic laboratory, which will be the new business line for the Group, covering internal as well as external demand.
Software and digital development	• Started implementation of ambulatory EMR. • Started implementation of medical ordering system in referral hospitals. • Picture archiving and communication system's ("PACS") implementation process in our entire network is almost complete.

Healthcare services business

Successful roll-out of newly-launched hospitals	• **Regional Hospital – opened in March 2018.** • The hospital started to generate positive EBITDA in 3Q18, six months after opening. • Occupancy rate reached 32.7% in 4Q18. • In line with our initial plan, more than 60% of revenue comes from elective care services and more than 40% is paid out-of-pocket.
	• **Tbilisi Referral Hospital – first phase opened in May 2017, additional capacity added in December 2017.** • The hospital has generated positive EBITDA since 1Q18. • Occupancy rate reached 46.5% in 4Q18.
Revenue growth and diversification	• Double-digit net revenue growth – up 14.7% y-o-y. • Diversified revenue stream – the share of Government financing in the healthcare services business revenue decreased by 80 bps, to 66.6%. The share of the out-of-pocket revenue increased by 140 bps, to 26.0%. • Polyclinics revenue up 33.2% y-o-y, contributing 7% to the total revenue from healthcare services, compared to 6% in the previous year.
EBITDA margin of c.30%	• The adjusted EBITDA margin for referral hospitals and community clinics, excluding the dilutive effect of roll-outs of Regional Hospital and Tbilisi Referral Hospital, was in line with our target, at 28.7%. • The EBITDA margin for our polyclinics business was down 20 bps y-o-y, to 13.0%due to the roll-outs. We expect to rebound gradually in the coming years.
Footprint and capacity expansion	• Opened 306-bed Regional Hospital. • Added a new polyclinic. • Continued the process of launching new services at our referral hospitals. In 2018, we launched 26 new services in 15 different referral hospitals. • Developing medical tourism, revenue of which was up y-o-y by 100% to GEL 3.4 million. • Opened eight dental clinics within the Group's polyclinics.

Pharmacy and distribution

Revenue growth and footprint expansion	• Added 15 pharmacies to the network. • Double-digit revenue growth – up 15.2% y-o-y, with 8.5% same store growth rate. • Wholesale revenue growth, up 18.0% y-o-y, by signing new corporate accounts and engaging in state programmes.
Margin enhancement	• The gross margin reached 25.5%, up 100 bps y-o-y, through realised procurement synergies. • EBITDA margin at 10.1%, exceeding our "more than 8%" target, with 7.8% operating leverage. • Added three new private label medicines – the number of which reached 37.

Medical insurance

Value creation – turning the corner in profitability	• After successfully implementing the new initiatives, the business started to contribute positively to the Group's performance. • The business reported positive EBITDA and profit, GEL 4.1 million and GEL 2.9, respectively, compared to the negative contributions in the same period last year. • Loss ratio down 690 bps to 77.3%. • Combined ratio down 850 bps to 94.0%.
Increased claims retention rates within the Group	• The total amount of claims retained within the Group increased by 4.7 ppts y-o-y and reached c.40%. • The total number of claims retained within the polyclinics increased by 4.3 ppts y-o-y.
Expansion	• Becoming the largest medical insurer and the largest private player in the healthcare sector of the country by winning two tenders – adding and retaining the country's largest insurance clients. • The number of insured as of February 2019 reached c.230,000 up from c.155,000 in 2017.

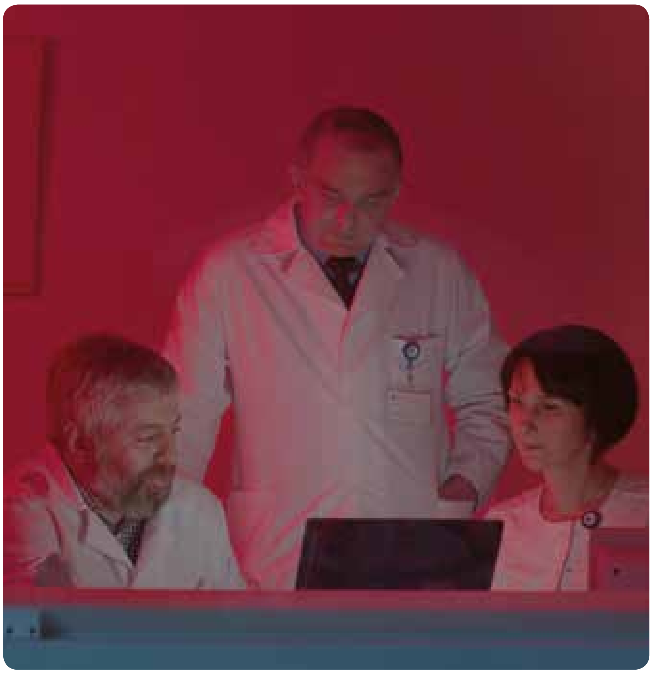
Unlocking the value of an integrated business model

GHG is the only integrated healthcare provider in the region with extraordinary visibility and presence in the entire Georgian healthcare ecosystem.

Extracting value from this integration will be the main target for the Group in the coming years. In 2018, GHG served around two million unique customers along its business lines, while the share of the patients using more than one segments of our business, pharmacies and healthcare facilities, accounted for only 13%. One of our long-term growth strategies is to capitalise on the main advantage of our business model – ability to manage customers on an integrated level. Enhancing digital channels and developing a fully cohesive health information system, will help us manage operations more efficiently and deliver a better care to our customers.

Having completed our intensive three-year capex programme, we are now focusing on improving cash flow generation and return on invested capital by applying various efficiency measures across the Group.

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



Segment	Referral hospitals	Community clinics	Polyclinics	Pharmacy and distribution	Medical insurance
Market share targets by addressable markets	By revenue | Beds		By revenue	By revenue	By revenue
Now	c.22% | 25%		c.3%	30%	27%
Long-term	c.30%+		c.15+%	30%+	30%+
P&L targets in medium to long term	Gradually improving to c.30% EBITDA Margin			9%+ EBITDA Margin	Combined ratio <97%

Our strategy continued

Growing double-digit in major business lines

Healthcare services business

In healthcare business, our long-term growth strategy is concentrated on gaining one-third of referral hospitals and community clinics, and 15% of polyclinics markets, while trough efficiency and cost control measures, gradually increasing business EBITDA margin to c.30%.

Apart from UHC, the budget of which grew by 7.1% in 2019 and is anticipated to grow within the country's nominal rate, the medium to long-term double-digit growth drivers are:

Referral hospitals

- Successful roll-out of Regional Hospital and Tbilisi Referral Hospital;
- strengthening existing services in elective care by adding new services in our hospitals in order to close the existing medical service gaps in Georgia and prevent local population from travelling abroad for treatment; and
- developing medical tourism (please see more on the next page); and
- implementation of fully integrated Hospital Information System ("HIS").

Polyclinics

- Expansion of the network by adding polyclinics through new launches and strategic acquisitions, which is planned both in Tbilisi and in regions;
- increasing the number of registered patients from current c.150,000 to more than c.200,000. The increased number of registered customers enhances the cross-selling opportunities within GHG's hospitals and pharmacies; and
- developing new services: roll-out of dental clinics and adding other primary care services such as aesthetic care.

Pharmacy and distribution

Growth and margin enhancement is the area of focus for pharmacy and distribution business while managing its market share at around 30%+.

The business' medium to long-term double-digit growth drivers are:

- Adding new pharmacies to the chain – over the next few years, we estimate to have 300 pharmacies;
- increasing same store sales by optimising product mix; and
- increasing wholesale revenue by signing new corporate accounts and engaging in state programmes and medical disposable and devices market.

The Group's consolidated procurement department under pharmacy and distribution business, the largest purchaser of pharmaceuticals in the country, stays focused on gaining additional discounts from manufacturers, subsequently reducing our costs of medicines and products to improve our margins. Apart from extracting procurement synergies, establishing our position as a market leader in a private label segment in the pharmacy and distribution business, increasing the number of private label medicines and personal care products, also allows us a significant margin improvement.

Medical insurance

After a successful year for our medical insurance business, we remain concentrated on the business' expansion strategy, while increasing its profitability through improved loss and combined ratios. As a feeder for our pharmacy and healthcare services businesses, the medical insurance business continues to prioritise retaining a greater number of claims within the Group.

Diagnostics (Mega Lab)

As a newly-launched business line, the segment's main goal as of now is to build effective logistics systems for the Group's chain of clinics and hospitals. In the medium to long term, we will pay special attention to developing a retail network, with around 50 blood collection points countrywide, and working on additional B2B contracts in next few years.

Key focus areas in the medium term and long term

Segment	Referral hospitals	Polyclinics	Pharmacy and distribution	Medical insurance	Diagnostics
1	Successful ramp-up of newly-launched hospitals	Footprint growth	Retail footprint growth	Increasing market share	Building effective logistics system
2	Adding new services	Increase in the number of registered patients	Margin enhancement	Increasing profitability	Develop retail network
3	Medical tourism	Adding new services	Growing wholesale revenue	Increasing retention rates within the Group	Attracting B2B clients
4	Digital channels	Digital channels	Digital channels and customer loyalty		Digital channels

Inter-Group Synergies
Manage customers on integrated level

Medical tourism

The increasing number of international arrivals in Georgia represents a natural base for developing medical tourism in the country.

After improving facilities and standards of care, we started developing health tourism by attracting the citizens of neighbouring countries and, conversely, retaining the Georgians currently seeking treatment abroad. The country is highly competitive in terms of quality and prices compared to other medical tourism destinations and possesses unique natural resources such as climate and mineral waters.

The services currently offered to medical tourism patients are: liver transplant, paediatric and adult kidney transplant, bone marrow transplantation, oncology and radiation oncology, orthopaedics and surgical traumatology, IVF, plastic surgery, bariatric surgery, angiosurgery, cardiology and interventional cardiology, ophthalmology and urology.

What we have done	• Upgraded infrastructure. • Upgraded quality in healthcare facilities. • Added new services to close existing service gaps in the country. • Preventing local patients from travelling abroad.
What we are doing	• Developing medical tourism strategy. • Developing a service structure for foreign patients. • Increasing awareness within post-Soviet countries through different marketing activities and road shows.

Revenue from international patients in our hospitals increased by 99.5% y-o-y in 2018
(GEL thousands)

3,415

+99.5% y-o-y

2018	3,415
2017	1,712

Number of international patients in our hospitals increased by 12.8% y-o-y in 2018
(Number of patients)

6,657

+12.8% y-o-y

2018	6,657
2017	5,902

Key rationale

In 2018, the number of tourists in Georgia reached 4.8 million, up 16.9% y-o-y

High quality of healthcare compared to top visitor countries (Azerbaijan, Armenia, Russia, Iran, Ukraine and Central Asian Countries)

No language barrier with neighbouring post-Soviet countries

Cost arbitrage compared to medical tourism destination countries

Value creation performance metrics

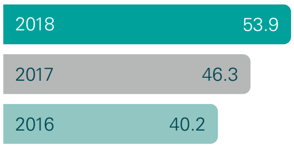
Return KPIs

The margins in all of our businesses is a function of our scale and largely reflects the realised procurement synergies and utilisation level of our healthcare facilities in Tbilisi. Repriced portfolio of our medical insurance business and improved cost efficiency Group-wide, while our two flagship hospitals remain in their initial roll-out phase, translated into a 15.9% growth in profit.

Profit before tax (GEL million)

53.9

+16.3% y-o-y

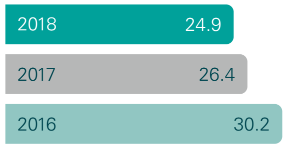


Profit before tax represents revenue less cost of goods sold and operating expenses, net of non-recurring expenses.

Healthcare services EBITDA margin (%)

24.9

-1.5 ppts y-o-y

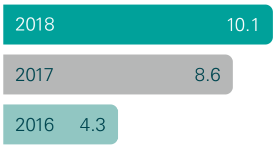


Healthcare services EBITDA margin is calculated as EBITDA divided by revenue, gross of corrections and rebates.

Pharmacy and distribution EBITDA margin (%)

10.1

+1.5 ppts y-o-y



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

Loss ratio (%)

77.3

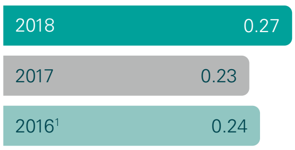
-6.9 ppts y-o-y

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

Earnings per share (GEL)

0.27

+17.4% y-o-y

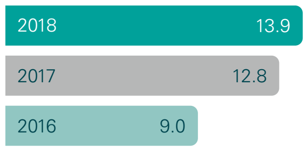


EPS is calculated as profit attributable to shareholders divided by weighted average number of outstanding shares.

Return on invested capital (%) (adjusted)[2]

13.9

+1.1 ppts y-o-y



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

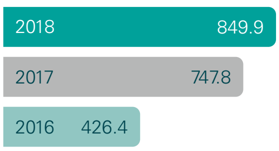
Growth KPIs

Our main growth drivers in 2018 were a growing number of healthcare facilities and pharmacies, enhanced medical services and product mix, a successful turnaround and expansion strategy of our medical insurance business. In 2019 and beyond, we will continue to focus on profitable revenue growth. We expect the increase mainly through organic growth driven by the roll-out of newly-opened hospitals, as well as by increasing our share in the fast-growing, highly fragmented and under-penetrated outpatient market, investing in medical equipment to capitalise on the existing service gaps, opening the Mega Lab, developing medical tourism, continuing to lead the market in the quality of our medical care, strengthening pharma presence through new launches and adding more private label products in the range, and expanding our medical insurance business.

Revenue (GEL million)[3]

849.9

+13.7% y-o-y

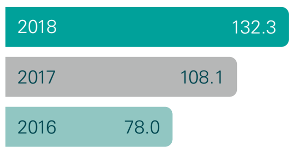


Revenue comprises healthcare services revenue from both inpatient and outpatient services; pharmacy and distribution business revenue and net insurance premiums earned from medical insurance.

EBITDA (GEL million)

132.3

+22.3% y-o-y

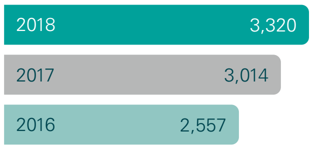


EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring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

1 2016 earnings per share ("EPS") is calculated as normalised net profit divided by weighted average number of shares outstanding during the same period.
2 Return on invested capital adjusted to exclude newly-launched hospitals and polyclinics that are in roll-out phase.
3 The amount represents gross revenue before corrections and rebates (see Financial Statements, Note 3). Revenue net of corrections and rebates was GEL 846.3 million in 2018 (2017: GEL 745.7 million, 2016: GEL 423.8 million).

Number of hospital beds

3,320



+306 y-o-y

Represents number of existing inpatient beds, including referral hospitals and community clinics.

Number of polyclinics

16

+0 y-o-y

Represents number of existing polyclinics in Tbilisi and in other regions.

Number of pharmacies

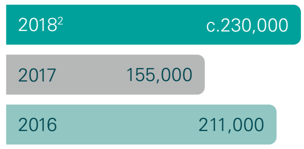
270

+15 y-o-y

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

Number of insured

c.230,000



+75,000 y-o-y

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

Efficiency KPIs

The combined effect of consolidated purchasing power for healthcare services and pharmacy and distribution businesses, the cost optimisation measures, diversified revenue sources and stabilised medical insurance business are the major contributors to the Group's positive operating leverage of 4.1% in 2018, y-o-y. Despite the new openings, such as the launch of two flagship hospitals in Tbilisi and new medical services, some of which are in the roll-out phase, the adjusted operating leverage[3] of the healthcare services business was also positive at 1.0%. Going forward, our focus will remain to drive efficiency across the Group, mainly in our healthcare services business, through various cost-optimisation activities. Other measures, such as various investments in IT aimed at optimisation of workflow processes and implementation of a centralised cost administration, represent the cost control measures we continue to deploy across the board.

Healthcare services operating leverage (%)

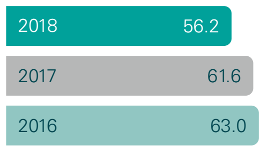
-8.1

+2.4 ppts y-o-y

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

Referral hospital bed occupancy rate (%)

56.2

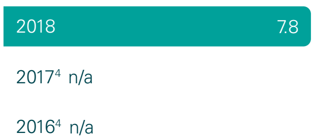


-5.4 ppts y-o-y

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

Pharmacy and distribution operating leverage (%)

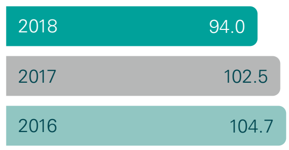
7.8



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

Combined ratio (%)

94.0



-8.5 ppts y-o-y

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

1 Including pharmadepot pharmacies.
2 As at February 2019.
3 Excluding other operating income.
4 We entered the pharma business in May 2016 and expanded in January 2017, thus we do not show comparisons with prior periods.

Resources and responsibilities

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

As one of the largest employers in Georgia, we recognise our role in ensuring our impact on the environment is minimised and our role as an employer of choice. We recognise that we have a responsibility and a duty not only to our shareholders and patients, but to society more widely, and we take this responsibility seriously.

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

This section of the strategic report constitutes the Group's Non-Financial Information Statement, in accordance with sections 414CA and 414CB of the Companies Act. The information to be disclosed under section 414CB has been included in the section below, with the exception of a description of the Group's business model, and principal risks and uncertainties which can be found on pages 2 to 65 and 53 to 59 respectively.

GHG is helping transform healthcare in Georgia

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

Over the last ten years, GHG has spent nearly GEL 750 million (US$300 million) on upgrading Soviet era facilities that were in a decrepit state. It built new hospitals and clinics that were outfitted with modern equipment. Between 2015 and 2018, GHG spent about GEL 3 million per year training medical staff.

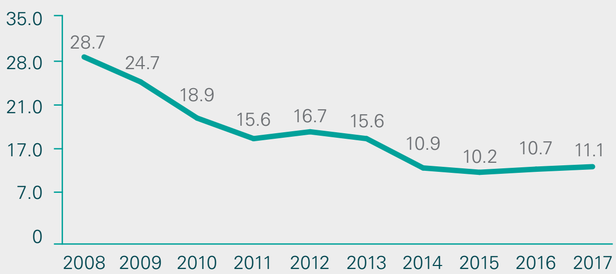
Today, GHG is the largest healthcare service provider, pharmaceuticals retailer and wholesaler, and medical insurance provider in the Georgian market. The Group operates a network of clinics and hospitals, pharmacies, a laboratory and medical insurance business. Read more about our business model on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

GHG's contribution to Sustainable Development Goals

"Countries around the world have committed to implementing Sustainable Development Goals ("SDGs"). Implementation of UHC is a key element of goal number 3 "to ensure healthy lives and promote well-being for all, at all ages." GHG is helping the Government of Georgia to achieve SDG 3 with a strategy that promotes greater access to healthcare, while providing financial protection to the most vulnerable groups. GHG is addressing the medical skills gap, and it is offering essential services including maternal, new-born, child health, infectious and non-communicable diseases treatments in the communities where Georgians live and work. As GHG expands the availability of quality primary care at outpatient polyclinics, it can help control costs and reduce premature mortality from non-communicable diseases through prevention." – Read more in IFC's case study published on GHG by clicking: https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/health%20and%20education/resources/case%20study_ghg.

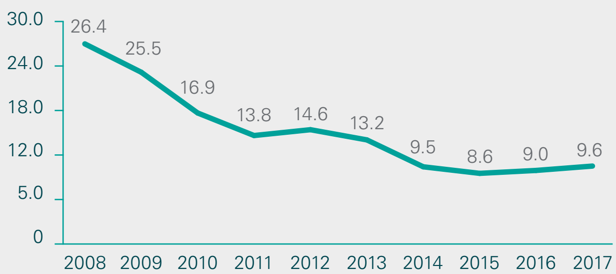
For decades, Georgia struggled with high rates of mortality. In 1995, infant mortality was 41.6 per 1,000 live births. Investing in the sector has resulted in tremendous improvement in mortality rate in recent years.

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



Source: Geostat

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



Source: Geostat

GHG is the largest employer in the private sector in Georgia with about 16,000 full-time employees, including 3,600 physicians and 3,300 nurses. It is training the next generation of doctors through 26 residency programmes and is continually upskilling its doctors, nurses and other medical professionals.

Environmental matters

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

Our approach to our impact on our environment is guided by our Environmental and Social Policy (viewable via: http://ghg.com.ge/uploads/files/environmentalandsocialpolicy33-52.pdf).

The aims of the policy in respect of environmental issues are, at a high level, to:

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

We detail below some of the major outcomes of the Environmental and Social Policy in 2018 below.

Waste management

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

To prevent human or environmental harm, our clinics collect and dispose of medical and biological waste through a specialised outsourced service. For waste collection, we use plastic bags or containers that have sufficient strength and are secured with staples. We never fill more than two-thirds of the bags' capacity. Then steam sterilisation is used to decontaminate biological and bio hazardous waste, including blood. All used sharp objects are placed in labelled, hermetically sealed single-use containers made of hard plastic. Waste is collected from our sites daily or twice a day when required. The maximum on-site storage time is 24 hours. To ensure reliability of our contractors, we regularly examine their monthly reports and impose penalties if necessary.

In total, our hospitals generated 600 tonnes of medical waste in 2018.

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

Supporting a healthy environment

We continuously strive to minimise GHG's environmental impact. To reduce the harmful effects of plastic, Pharmadepot has been using paper bags in its pharmacies.

We continually look at ways across the Group of reducing our carbon footprint and contribute to building a recycling-oriented society that strives to coexist with nature. To minimise the damage caused by paper industry we are promoting ways of going "paperless" across the Group. In this regard, one of the initiatives we have recently introduced is to replaced several historically paper-based procedures with software-based programmes and have launched "the Green Project" by placing special boxes at our facilities for recycling paper waste. The money received from the sale of scrap paper collected at boxes will be used for various social activities. The Group's annual consumption of paper stood at approximately 520.6 tonnes in 2018, compared with 669.1 tonnes in 2017.

Greenhouse gas emissions management

We consume annually thousands of kilowatts of electricity. The electricity usage accounts for more then half of our total greenhouse gas emissions. To be more environmentally friendly, we continue to implement a number of energy-saving solutions, such as LED lights, and other energy-efficient equipment, such as boilers and HVAC systems.

In order to reduce air pollution and lessen our negative impact on the environment, our medical insurance business has shifted from traditional petrol-powered vehicles to hybrid vehicles. Hybrid cars are more fuel-efficient and create lower emissions than conventional cars.

Greenhouse gas emissions management

Tones of CO_2e	2016	2017	2018
Scope 1 (emission from combustion of fuels in stationary equipment and in owned vehicles)	6,517	7,993	7,509
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	10,302	15,124	16,471
Scope 3 (emissions from air travel and land transport)	3,621	4,795	5,430
Total GHG emissions	20,440	27,912	29,410
Per FTE	1.59	1.85	1.85

Resources and responsibilities continued

Employee matters

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

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

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

Our recruitment policy is aligned with Georgian legislation and the Group's diversity policy. We use merit-based recruitment tools, and we have worked to ensure that job descriptions and person specifications for all GHG vacancies do not, either directly or indirectly, include gender, age or other discriminatory requirements. The applicant assessment tool is based on evaluation of key competencies and job skills. In order to promote fair selection processes, candidates are interviewed by more than one person and undergo several stages of selection.

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

Employee engagement

We believe that communication and ensuring that all employees are aware of, and engaged with, the Group's strategy and the way in which each employee can contribute to the delivery of the strategy, is pivotal to our long-term success. Therefore, we provide our employees with the information about our corporate culture, the Group's strategy and goals, performance-related risks, our policies and procedures. We communicate this information in a number of ways: by inclusion in departmental managers' presentations, through our intranet, by e-mail and at regular town hall and off-site meetings. In 2018, we also launched a three-day induction training for new employees, to inform them of our business, the Group's values and priorities and support to overcome the stress associated with a new environment.

We value the views of our employees. We consult with them frequently and have effective feedback systems, such as employee satisfaction surveys, to ensure that our employees' opinions are taken into account when making the decisions that are likely to affect their interests. Employee feedback also helps us improve our approach to customer service.

Talent attraction

Our recruitment division is constantly looking for new ways to attract talented professionals, by continuously updating the pool of candidates for our ongoing and forward-looking recruitment needs. To adhere to our Code of Conduct and Ethics Policy and reward colleagues based on merit and retain top talent within the Group, we started to implement the GHG internal career development plan in 2018. Available vacancies are first announced through internal channels, which serves to promote and facilitate career development opportunities for those within the Group. In 2018, 50 vacancies were filled through internal recruitment, whereby 22 employees were promoted.

For external recruitment, we use the following channels:

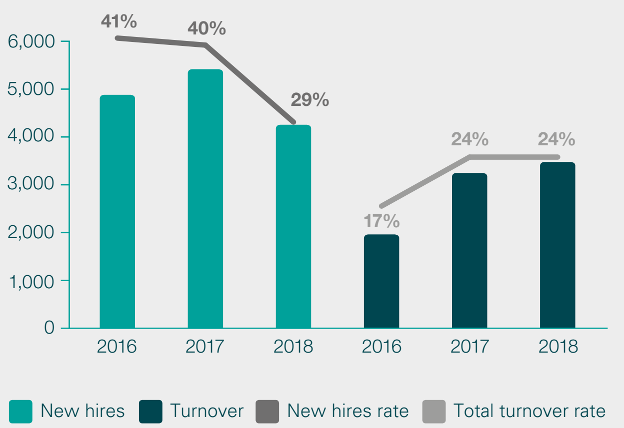
- announcing vacancies on job search websites, social networks and other media sources;
- headhunting top medical talent for our newly-opened hospitals;
- partnering with universities, colleges and medical associations in Georgia and abroad;
- partnering with private and state HR employment agencies; and
- headhunting Georgian specialists working abroad.

In 2018, we conducted ten job fairs in different universities and colleges and recruited more than 100 students. We also used headhunting services to attract two top level managers.

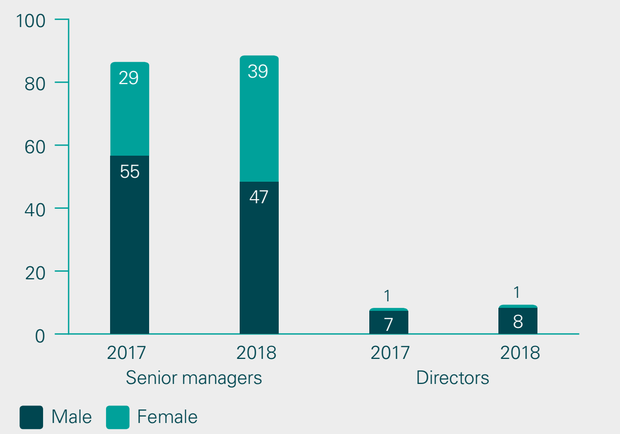
Internship is another proven practice in GHG. We attract young, talented people for entry-level positions. In 2018, 350 interns went through a three-month internship programme and 120 of them were hired after completing their internship.

Employee matters

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



Gender distribution of the Group per employee category



Memoranda of Understanding ("MoU") with universities

Medical education institutions continue to be our main source of emerging talent. The learning centre of our healthcare services business ("the EVEX Learning Centre") partners with 11 universities in Georgia, including both medical and non-medical schools. We offer these universities our clinical sites for various educational purposes, including on-the-job training and affiliated residency programmes. For instance, in 2018, the EVEX Learning Centre conducted six-month free 140-hour nursing courses for students from nursing colleges and 165 candidates who earned the passing score were offered jobs at our healthcare facilities.

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

In September 2018, we also signed an exclusive partnership agreement with the pharmacy college Orientiri. We offer grants to our employees who have little or no pharmaceutical education. After two years of college, they can graduate with a pharmacy degree and start a career in one of our pharmacies. GEPHA finances 50% of the total tuition fee. 14 participants are already enrolled and are expected to graduate in 2020. The main goal of the project is to address the shortage of pharmacists and increase the number of staff qualified for this position.

GHG Leadership Programme (the "Programme")

The Programme is one of the pillars of GHG Human Capital Strategy (see more on page 24). The Programme is designed for our 200 middle level managers to further develop and improve their managerial and leadership skills. 125 managers have already taken five-month 180-hour General Management Course in 2017 and 2018. The Course is designed by the Bank of Georgia University, one of the top schools in the country. A further 75 employees will take the course in 2019. We balance gender composition in our Programme where 59% of the participants are female and 41% are male.

For our Programme participants, we have also developed a Personal Development Programme, which further builds leadership competencies through effective performance feedback and coaching sessions. In 2018, 65 middle managers used the 360-feedback tool, developed their personal plan and 30 of them also took part in individual coaching sessions.

Training and development

We invest in various professional educational opportunities. In 2018, we invested GEL 3 million in training and development courses mostly designed for our nurses, physicians and pharmacists.

We are proud to have our own EVEX Learning Centre, the only centre in Georgia offering continuous medical education, operating since 2014. Our learning centre independently develops and runs a variety of Continuing Professional Development Programmes ("CPDs"). Most of the CPDs consist of medical training for physicians and nurses, although some non-medical staff, such as hospital administrators and receptionists, can also participate. In 2018, the EVEX Learning Centre trained a total of 1,170 nurses, 1,669 physicians and 1,529 back office employees.

Professional development of our pharmacy and distribution business employees is led by the GEPHA Training Centre trainers (employees with a background in pharmacology, parapharmacy and operational standards), mentors (employees from different business units supporting on-the-job training and inductions) and coaches (employees with appropriate backgrounds who conduct soft skills training). In 2018, the GEPHA Training Centre trained a total of 4,500 participants.

To encourage continuing professional development, our medical insurance business has also launched its own Imedi L Academy, offering specialised vocational training programmes and courses to its employees. Training programmes are delivered by guest speakers as well as company managers who share their ideas, experience and best practices. Imedi L Academy has established a corporate library to give employees opportunities for growth, learning and self-development that has a large variety of books. Imedi L Academy delivered training to 1,000 participants in 2018.

Residency programme

In line with our strategy to develop a new generation of doctors in Georgia, we launched a postgraduate educational residency programme in a number of fields in 2015. These programmes ensure development of qualified specialists in the areas where we lack physicians. The programmes have proved to be popular. Currently we have 201 talented residents involved in 25 specialties; 16 of them have received a 100% grant and 49 an 80% grant, while 45 residents have obtained student loans. In order to retain successful residents within GHG, those who have grants or student loans are required to work at GHG healthcare facilities after graduation for at least three years.

New national nurse education curriculum

We are proud to announce that our nursing training curriculum has become a national standard for nursing colleges in Georgia and has changed the educational standard for nurses.

EVEX Medical Corporation has successfully petitioned the National Centre for Education Quality Enhancement proposing to bring the current college curriculum in line with international standards by including natural science fields, such as anatomy, physiology, biochemistry, pathology, microbiology and others, into nursing education. Our future goal is to extend learning further to master's and doctoral degrees in nursing.

Incentive plans for employees

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

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

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

In 2018, we also created a healthcare plan for GHG employees. Each employee is entitled to basic healthcare services. Currently, 13,600 employees are benefiting from the GHG employee programme.

Resources and responsibilities continued

Mandatory pension fund
In January 2019, a new pension law became effective in Georgia introducing a mandatory accumulative pension scheme. According to the law, employees are required to contribute 2% of their earnings to their retirement savings, and employers are required to add the same amount, while the Government's contribution depends on employee's income and varies from 0% to 2%. Participation in the pension fund is obligatory for the employees under the age of 40. GHG will to invest approximately GEL 3.3 million in 2019, in the mandatory pension benefit for our employees.

Corporate culture development
We seek to achieve a high level of employee satisfaction. Each year, we launch a few projects to develop our corporate culture and increase employee engagement:

- Another successful project was Work and Rest – Rotation programme for our employees working in similar positions at our hospitals to share experience and knowledge with one another.
- GHG Football Championship 2018 – An initiative promoting healthy lifestyle. 11 teams, a total of 120 employees participated.
- GHG Brain Ring – Intellectual competition among 18 teams, 150 employees in total.
- EVEX Employee Fund – Employees voluntarily contribute 1% of their monthly salary to the fund, while GHG adds 50% of the amount accumulated each month. The fund is managed solely by our employees through elected committees in each hospital. The fund currently has 2,900 voluntary participants. In 2018, more than GEL 0.5 million has been contributed to the fund and more than 1,100 activities have been financed, mainly to support our employees in case of health issues and family member's illness.

Employees' engagement in teambuilding activities.

Social matters
The Group considers the interests of its main stakeholders – patients, customers, shareholders, employees and society – when developing its strategy and operations improvement processes. We strive to support public welfare with all our business activities by developing socially-oriented services, implementing responsible approaches to our business operations and carrying out sponsorship and charitable activities. In doing so, we follow our undertakings in respect of social and community matters set out in our Environmental and Social Policy.

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

In 2018, the Group spent a total of c.GEL 1 million to finance different initiatives to benefit broader society, some of which are listed below:

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

The healthcare services business of GHG also provides free regular medical examinations in its facilities throughout the country. In 2018, we carried out 23 different free screening programmes in total, benefiting up to 73,000 patients. Such free-of-charge medical check-up and screening programmes include managing tuberculosis, breast cancer screenings, prostate cancer screenings, hepatitis C screening and diabetes programme.

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

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

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

Diabetes in Georgia, and globally, is on the rise, with the incidence rate per 10,000 citizens now reaching 394. To address the disease's increasing prevalence, we offer 50% discount on test strips to patients with diabetes.

Children's Oncology Programme

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

In 2018, more than 600 patients with different types of cancer received treatment at Iashvili onco-haematological department. The renovated department enabled us, for the first time in the history of the Iashvili Hospital, to receive patients with solid tumours and since then 262 children have completed the treatment course successfully.

Healthy lifestyle

- To support a healthy lifestyle within the organisation, specially invited trainers conducted ten educational sessions for our employees to raise awareness on healthy living. In 2018 six such trainings were conducted, for 271 of our employees.
- Sponsoring a medical TV programmes is our way of reaching out to a wide range of the Georgian population to raise health awareness and promote healthcare practices. In 2018, GEL 120,300 was spent on financing these TV programmes.

Office Without Tobacco

We recognise that smoking continues to be one of the leading causes of preventable deaths in Georgia, and that it is a leading public health priority in the country. We also recognise that, as a national healthcare provider, there is a particular duty upon the Group to help those that wish to quit smoking to do so, whether they be employees or patients.

Since 2017, the healthcare services business has run a campaign Office Without Tobacco for its employees, promoting a healthy lifestyle within the organisation. With the help of the specialists and consultants invited from the Tobacco Control Alliance, a special treatment programme was developed. Each of our employees willing to give up smoking can participate in the programme to get rid of their nicotine addiction using medication and psychological treatment, totally free of charge. With the help of the programme, since 2017, approximately 19 employees have been successful in quitting smoking. In 2018, participants also had several meetings with the employees who shared their experience on how they gave up smoking after a successful completion of the 2017 course. In 2018, the healthcare services business also initiated a new anti-tobacco campaign for its patients called Don't Quit on Quitting. Under the campaign, professionals invited from the Tobacco Control Alliance trained our 62 GPs and equipped them with special Carbon Monoxide ("CO") meters. Smoker patients were offered free measurement of CO in their body, free consultation on how to quit smoking and medical treatment by prescribing the medicines that are available at our pharmacies with special discounts. During the campaign, 57 people signed up and underwent the programme.

In addition in 2018, our pharmacy and distribution business launched a new anti-tobacco campaign, increasing the awareness of negative effects of smoking on health and promoting a healthy lifestyle. The campaign includes digital commercial activities, where children expressed their opinions on how harmful smoking is for health and challenged their parents to quit smoking.

Sponsorship and charity

As part of our sponsorship and charitable activities, the Group continues to focus on promoting and enhancing access to education and healthy lifestyle, facilitating innovative projects that focus on social goods to deliver sustainable results and bring positive change.

Education

- The healthcare services business partnered with Educare Georgia to support their initiative and sponsored the translation of Khan Academy's, a well-known international learning platform, full biology course into Georgian.
- To support the country's new generation and contribute to their development, the healthcare services business cooperates with different universities across Georgia and operates the Students' Programme, which includes the following initiatives: improved healthcare package under UHC, scholarships and sponsoring tournaments, meetings with motivational speakers, master classes and outdoor activities.
- We believe that professional medical education is the cornerstone of healthcare quality in Georgia. For this reason, we try to develop a healthy learning environment by financing international and local medical conferences. In 2018, we sponsored seven medical conferences and two workshops, which brought together medical scholars and healthcare practitioners from Europe, Asia, the US and Georgia to share knowledge and experience that influence and shape healthcare delivery. Total financing to support the conferences amounted to GEL 531,544.

Charity

- In 2018, the healthcare services business signed a memorandum with the Georgian Solidarity Fund. According to the memorandum, we offer fund beneficiaries free medical services at our facilities. In 2018, up to 100 beneficiaries received free radiological check-ups at our hospitals and polyclinics.

Successful participants of Office Without Tobacco.

Resources and responsibilities continued

- In 2018, our pharmacy and distribution business sponsored the charity event "Festival of Life" organised by Monk Andrew's Foundation. The foundation takes care of children with oncology problems, gives them financial and psychological support and helps them in the rehabilitation process.
- The healthcare services business also partners with Dimitri Tsintsadze Foundation, a charitable fund that helps children suffering from leukaemia and cancer, and the Monk Andria Foundation and offers 20% discount on all our healthcare services for all of the fund's beneficiaries.
- With the support of the Caucasus Nature Fund ("CNF"), we are involved in the Project of Maintenance of Caucasus Natural and Cultural Heritage. The fund is meant for effective long-term management of the protected territories of Armenia, Azerbaijan and Georgia. In 2018, CNF announced a fundraising campaign in connection with its tenth anniversary to support the region's magnificent nature. GHG donated GEL 60,700 to the project.

Group Policies

Human rights

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

Diversity

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

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

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

In our healthcare business, 78% of applicants are female. On average, we have five shortlisted applicants per vacancy. We are proud to be the country's biggest employer yet to have no complaints or litigations from our applicants due to the recruitment process.

Within the scope of our CSR campaign, we provide employment opportunities to the people with disabilities. We are currently employing three persons with disabilities. We plan to advance this project and give opportunity to more people for better inclusion.

Anti-bribery, anti-corruption and whistleblowing

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

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

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

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

In 2018, the Group set up a new Internal Security department that closely watches and monitors day-to-day business and promotes a transparent environment within the Group. The new department has initiated a screening process that every newcomer and employee, in case of promotion, should undergo.

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

To achieve the best quality of service and the highest possible ethical standards, the Internal Security department has started promoting freedom of speech. The purpose of this initiative is to convince employees and others who have serious concerns about any aspect of the organisation and its work to come forward and voice those concerns. Thus, whistleblowing is viewed as a positive act that can make a valuable contribution to the Group's efficiency and long-term success. To encourage whistleblowing practice, starting from 2019, a hotline will be set up where any affected employee can raise their concern. The cases will be further analysed by the Internal Security department and relevant measures will be taken.

Whistleblowing policy can be found on the Group's website: http://ghg.com.ge/policies.

How we implement our policies across the Group

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

All policies were developed and issued based on the Group's internal standards. Approved documents were published on the Company's intranet and internal policies and procedures platform. Some of them were also posted on the GHG webpage. After establishment of the Group's general standards, each business line was responsible for developing a comprehensive procedure with all technical details and activities to be performed for implementation of the respective projects.

Compliance with the Group's standards is ensured by centralised control exercised by the respective business lines in their day-to-day activities. In addition, the Internal Audit department, the recently created Internal Security department and the Risk Management Team periodically carry out direct control reviews, which includes undertaking surveys, due diligence, monitoring and other internal control system tools and methods.

In 2018, our newly-developed Risk Management department conducts due diligence on components of environmental and social policy, while Internal Security department monitors adherence to anti-bribery and anti-corruption policy in day-to-day activities.

As the Group remains dedicated to improving implementation of its policies, it took significant steps in this respect in 2018 as well; specifically, the referral hospitals launched the Delegation Project to strengthen and improve existing management systems. The project intends to delegate significant part of functions currently performed by the headquarters to the business unit managers. This gives increased flexibility to hospitals and enables headquarters to focus on policy implementation, monitoring and control. The project consists of three major phases:

i. **Delegation of responsibilities and the decision-making process**
The hospitals have defined the scope of delegated functions, which are as follows:
- Full independence in daily routine management across the full range of hospital operations.
- Operational expenses are fully delegated within the approved budget, while for capital expenditures only 30% of the approved budget is delegated.
- HR decisions – hiring and firing, rotation – are fully delegated, except for the hospital's top management positions.
- Since November 2018, hospitals have carried out the functions within the scope of delegation.

ii. **Strengthening of the supervision function**
The project aims to change the headquarters day-to-day involvement and move to a more decentralised management system, by only keeping support, policy-making and educational role and in turn strengthening supervision and control functions. In order to implement a unique, efficient and risk-based system of hospital management, headquarters issues internal standards defining performance expectations, rules, structures and functions for hospitals. These standards are in line with the Group's policies described above. Compliance with internal standards will be one of the major hospital performance valuation indicators.

Internal standards set performance requirements for the following business areas of the hospital:
- Clinical quality and patient service.
- Operations.
- Customer Service.
- HR.

The standards are already issued and introduced to each hospital's management team. For 2019, preliminary surveys are planned in hospitals to assess the current level of compliance and define directions for improvement. Afterwards, an annual survey will be carried out by a group of experts (in each business area) as part of performance assessment system.

iii. **Restructuring of the existing performance assessment system**
The Group has introduced a modified annual performance monitoring system, which puts increased emphasis on and provides additional encouragement for adherence to Group policies. This is achieved by incorporating internal standards fulfilment as a significant KPI for all referral hospitals starting from 1 January 2019.

Annex 1
GHG emissions calculation methodology

We have reported on all 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 are not responsible for any emission sources that are not included in our consolidated statements.

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

Factors for Company reporting 2018

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

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

The data for 2018 are provided by on-site delegates, invoices and meter readings.

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

Risk management

We are exposed to a variety of risks and uncertainties which could have a material adverse effect on our key stakeholders (including, but not limited to, our shareholders, patients, customers, etc.), as well as our business, financial position, operational results and reputation, and on the value of our shares. We recognise that the effective management of risk and a robust system of internal controls is critical to delivering our strategic objectives and protecting the interests of our shareholders.

Overview

We identify, evaluate, manage and monitor the risks that we face through an integrated control framework consisting of formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms that our current risk management framework has been in place throughout the year ended 31 December 2018 and to the date of approval of this Annual Report and Accounts and is integrated into both our business planning and viability assessment processes.

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

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

Our framework

The Board's mandate includes determining the Group's risk appetite and risk tolerance, as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. We develop risk management strategies which address the full spectrum of risks that the Group faces. We are accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit Committee and the Clinical Quality and Safety Committee assisting in the discharge of this responsibility. We also focus on the resolution of any internal control failures that may arise. No significant failures occurred during 2018 or the period up to the date of this Annual Report.

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

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

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

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

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

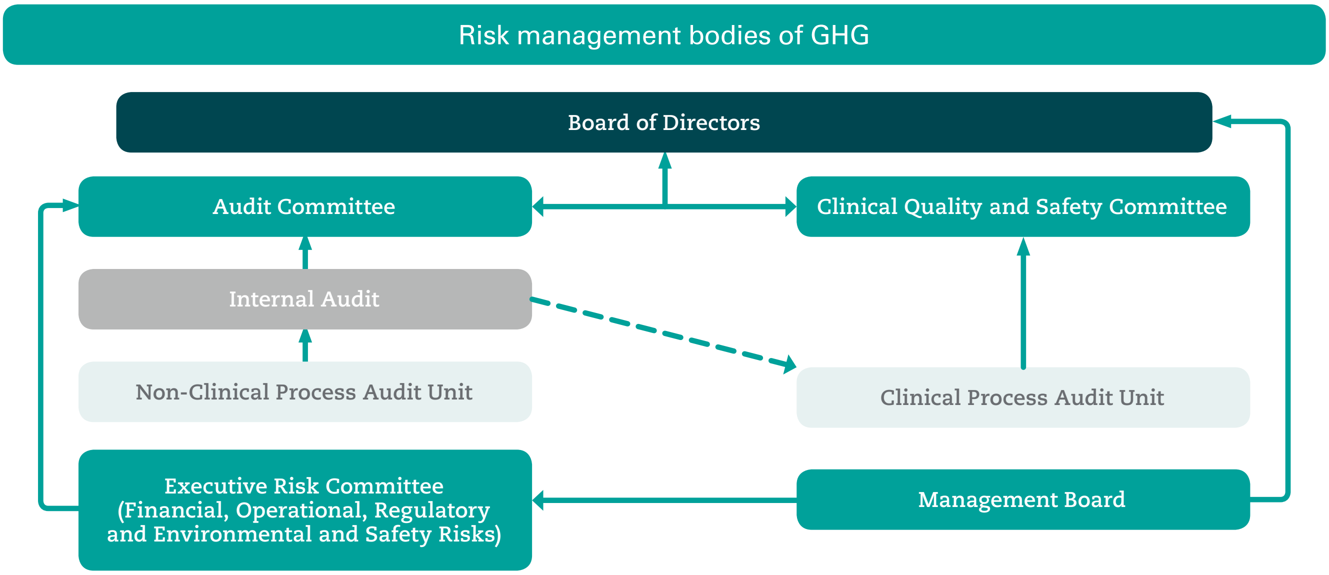
The Board has put in place corporate governance policies and procedures that aim to ensure that there is good and clear awareness and understanding of the policies and procedures amongst senior management, as well as throughout the organisation.

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

A description of these principal risks and uncertainties in addition to key drivers and trends as well as mitigation efforts can be found on pages 53 to 59.

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.

Risk management continued



Key elements of the Group's system of internal control which have operated in 2018 are:

- procedures for the assessment, approval, control and monitoring of major capital projects, including acquisitions and disposals;
- a robust Board Committee structure, where each Committee deals with specific aspects of the Group's affairs, and an organisational structure with clearly defined levels of authority and division of responsibilities; in line with this approach, the Group has recently completed a reorganisation of its businesses into independently functioning operating companies, with full set of corporate functions in each, with GHG retaining only Group support functions as well as strategic management of the Group's business; as a result of this reorganisation, the Group's healthcare services business has been divided into: referral hospitals and clinics businesses;
- regular reports to the Audit Committee and Clinical Quality and Safety Committee on the adequacy and effectiveness of internal control by, among others, the Head of Internal Audit, the Head of the Clinical Process Audit Unit, the Head of Clinical, the Director of the Legal Department, the Chief Risk Officer and the Chief Financial Officer;
- operational committees, including the Executive Risk Committee formed in September 2017, that have established various policies and which monitor the risk in any are of operation;
- a Remuneration Policy for members of executive management, which motivates them appropriately, without incentivising disproportionate risk-taking (the Remuneration Policy can be found on pages 89 to 107);
- reviewing and monitoring the operation of the Whistleblowing Policy and procedures in place to allow staff as well as external stakeholders (such as vendors, customers, etc.) to raise concerns on a confidential or anonymous basis about possible legal, regulatory, financial reporting or other improprieties;
- a Risk Event Database ("RED") system, implemented since October 2017 and formally approved in December 2017, which collects and consolidates, both, actual and possible risk events across the Group and enables risk identification, root cause analysis and assessment with increased efficiency;
- the Audit Committee's review of the quarterly, half-year and full-year Financial Statements and corresponding press releases;
- the attendance at the Audit Committee meetings of the internal auditors;
- updates, on a monthly basis, to the Management Board in relation to the Group's financial risk profile, policies, limits and ratios by the Chief Financial Officer; and
- updates, on a monthly basis, to the Management Board in relation to the Group's operational, clinical and regulatory risk profiles, policies, limits and monitoring results by the Risk Department.

Internal control

Board and Board Committees

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

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

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

For details of the key risk areas reported to the Audit Committee and Clinical Quality and Safety Committee in 2018, please see the corresponding Committee reports.

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

Each quarter, the Chief Financial Officer as well as the finance team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Board. The Audit Committee also reviews the quarterly, half year and full year Financial Statements and corresponding press releases and provides feedback to the Board. The internal auditors attend most Audit Committee meetings and the Audit Committee meets regularly both with and without management present.

The Internal Audit department reviews financial areas of risk pursuant to a programme approved by the Audit Committee. Any issues or risks arising from an internal audit review are reviewed by the Audit Committee and appropriate actions are undertaken to ensure satisfactory resolution. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee.

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

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

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

Executive Risk Committee and Risk department
The Executive Risk Committee was established in 2017. Its members comprise the Executive Director, his deputies, the Director of the Legal department, the Head of Internal Audit department and employees of the Risk department. The Committee meets at least quarterly, but can also meet more frequently if needed.

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

The Risk department was also established in 2017 to better coordinate the management of risks within the Group. The main goals of the Risk department are: performing continuous due diligence in both clinics and the head office, management of the Risk Event Database ("RED"), maintenance of the Group's risk register, implementation of risk management policies and preparation of regular risk reports for the Executive Risk Committee. With the recent reorganisation, reorganised operating companies will continue to have their independent risk departments with similar functions being replicated.

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

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

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

Effectiveness review

Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit Committee and Clinical Quality and Safety Committee. This review covers all material systems, including financial, operational, clinical and regulatory compliance controls. The latest review covered the financial year ended 31 December 2018 and the period to the approval of this Annual Report and Accounts.

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

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

We are satisfied that our risk management processes and internal control systems processes comply with the UK Corporate Governance Code 2016 (the "Code") and the Financial Reporting Council ("FRC") guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Audit Committee and Board have taken into account the provisions of the recently revised UK Corporate Governance Code in respect of risk management and internal control processes, and we will report on our compliance with those provisions in the 2019 Annual Report.

Risk management continued

Committee reports

As noted throughout this discussion, both the Audit Committee and the Clinical Quality and Safety Committee play an essential role in implementing effective risk management and internal control. Each Committee has described this work in their Committee report. The Audit Committee Report and the Clinical Quality and Safety Committee Report can be found on pages 76 to 81 and pages 82 to 84, respectively.

Going concern statement

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out on pages 2 to 65. After making enquiries, the Directors confirm that they have a reasonable expectation that GHG and the Group, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the Financial Statements are authorised for issue. Accordingly, they continue to adopt the going concern basis in preparing the accompanying consolidated Financial Statements.

Viability statement

Assessment of prospects

An understanding of the Group's business model and strategy are central to assessing its prospects, and details can be found on pages 2 to 65. We assess our prospects on a regular basis through strategic planning, financial planning, budgeting and forecasting of business performance. This assessment considers the Group's revenue, cash flows, committed and forecast funding and liquidity positions and other key financial ratios. Over the last three years the Group has grown significantly through implementation of the strategies set by management and supported by stable long-term funding, provided by both shareholders and the creditors. The Group's net revenue and EBITDA grew by 13.5% and 22.3% in 2018. The basis of all of the Group's strategies across all business lines is long-term sustainable growth through well-managed and sustained long-term leverage levels. None of the Group's investments are short-term and all of them are oriented towards long-term value creation for its shareholders.

Viability statement

In accordance with provision C.2.2 of the Code, the Directors are required to assess the prospects of the Company to meet its liabilities by taking into account its current position and principal risks. The Board conducted this review over a three-year period beginning 1 January 2019, being the first day after the end of the financial year to which this report relates. The Board selected this period for the following reasons: a) it considers its strategic plan, financial budgets and forecasts for a three-year period, annually; and b) it is impracticable to establish a longer planning period within the operating and macroeconomic environment.

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

- the Group's financial and operational position, including key metrics;
- the Group's cash flows and capital allocation;
- the Board's risk appetite;
- the Group's business model and strategy as set out on pages 2 to 65;
- the Group's principal risks and uncertainties, as set out on pages 53 to 59 ;
- how the principal risks and uncertainties are managed;
- the effectiveness of our risk management framework and internal control processes; and
- stress-testing, as described below.

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

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

For those risks considered sufficiently severe to affect our viability, we performed stress-testing for the assessment period, which involved modelling the impact of a combination of severe and plausible adverse scenarios, including the following, in each case with the scenario taking effect immediately: a) reduction of UHC tariffs by 5% on all healthcare services in 2019; b) reduction of pharmaceutical prices by 3% due to competition in 2020; c) increase of working capital need from 30% to 32% of EVEX and from 12% to 12.5% of GEPHA from 2019; d) sudden prolongation of average receivables pay out, Days Sales Outstanding ("DSO"), by one month through a regulatory change in 2019; e) increase of cost of funding by 5% from 2019 and additional 3% increase from 2021; f) increase of EVEX invoice correction rates by 0.1%; and g) in the last scenario, all of the previous stress scenarios happening at the same time. The stress-test scenarios were then reviewed against the Group's current and projected liquidity position, considering current committed funding. The outcome of this modelling confirmed that none of the scenarios would compromise the Group's viability either in isolation or in combination. The stress-testing also took into account the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group is exposed. The stress-test demonstrated that no mitigating actions were required with the exception of scenarios b) and g), but the likelihood of such scenarios were remote.

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

Based on the analysis described above, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period from 1 January 2019 to 31 December 2021.

Principal risks and uncertainties

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

All principal risks identified by the Board may have an impact on our business strategic objectives. These principal risks are described in the table that follows, together with the relevant strategic business objectives, key risk drivers/trends and the mitigation actions we have taken. It is recognised that the Group is exposed to risks wider than those listed. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have been the subject of debate at recent Board, Audit or Clinical Quality and Safety Committee meetings.

The order in which the principal risks and uncertainties appear does not denote their order of priority. It is not possible to fully mitigate against all of our risks. Any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

Principal risks and uncertainties continued

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Recruitment and retention of skilled medical practitioners		
Our performance depends on our ability to recruit and retain high-quality doctors, nurses and other healthcare professionals. The success of our healthcare services depends in part on our ability to recruit, train and retain an appropriate number of highly-skilled physicians, nurses, technicians and other healthcare professionals in order to deliver international standards of care, offer greater diversity of services to better satisfy our population's needs and provide the latest treatments using technologically advanced equipment. **Impact** If we are unable to effectively attract, recruit and retain qualified doctors, nurses and other healthcare professionals, our ability to provide efficient and diverse healthcare services and sophisticated treatments and retain and attract new patients, as well as our business and results of operations may be adversely affected.	There is a shortage of suitably skilled doctors, nurses and other healthcare professionals in Georgia. Our hospital and outpatient network has grown rapidly during the last several years, including 2018, and requires human resources with the skills and experience to service it across a range of specialties.	We prioritise investment in recruitment and talent development programmes, training and retention of our professionals. We operate incentive schemes, which for example offer bonuses and enhanced benefits. We have successfully attracted a number of western-trained Georgian doctors to our Group and are continuing our efforts to that end. We continue to expand the size of both our nursing college and residency programme and to broaden the specialties covered in order to source specialists in the fields where we have a shortage of doctors. Incentives are offered to graduates of the programme to accept employment within our network. Engagement with medical schools and nursing programmes, as well as our scholarship programmes, enable us to recruit talented graduates. We are committed to expanding our programmes and increasing our capacity. Talent and training development programmes, that enhance the skills of our experienced specialist doctors and nurses and create an internal talent pipeline of younger doctors and nurses, have been successful in expanding our specialist capability. We also offer programmes for doctors to study abroad as well as receive on-the-job training by our own specialists and doctors from abroad. We continue to expand our training and development programmes to a larger group of doctors and nurses.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation

Clinical risk

Principal Risk/Uncertainty

Hospital-acquired infections and communicable diseases at any of our facilities, and especially their epidemic or outbreak, could adversely affect our patients and our business, in common with other healthcare facilities worldwide.

If our hospitals fail to carry out accurate and timely prevention activities, or to comply with internationally-recognised clinical care and quality standards, previously uninfected people may contract and spread serious communicable diseases. Irrational use of antibiotics or neglecting to follow waste disposal or other clinical protocols could also have social or environmental impacts.

Safety is a cornerstone of clinical risk management in modern medical facilities and risk management programmes should be focused on overall safety in hospitals for patients and visitors and staff as well.

Maintenance of properly functioning medical equipment is another significant matter for healthcare facilities worldwide.

Impact

Failure to diagnose and/or adhere to standards and protocols for hospital associated infectious and communicable diseases could result in:

- damage to our patients and negatively impact outcome of treatment;
- decreased patient trust in our services;
- damage to our reputation which may result in an inability to attract new patients or retain existing patients;
- claims for damages;
- escalation of the epidemic or outbreak;
- creation of bacteria resistant to antibiotics;
- occupational health hazards for our staff and resulting staffing shortages; and/or
- operational limitations imposed by our regulators.

Improper disposal of waste increases these risks and can impact the environment.

Key Drivers/Trends

Our operations involve treatment of patients with a variety of infections and communicable diseases.

Failures in prevention could result in intra-hospital infections, especially in high-risk areas such as intensive care units, emergency departments and operating theatres.

Infection control and prevention has to cover a variety of our activities, including: clinical practice, cleaning and sterilisation, laundry, waste management, rational antibiotic use and protection from communicable diseases. Historical practices in Georgia, including in many of the facilities we have acquired in recent years, are well behind international best practices.

Hospitals, by nature, are a high-risk area for injuries. Healthcare workers have a high risk of workplace injuries and illness.

Our services involve using high-tech medical equipment which require regular maintenance and monitoring to ensure continuously high standard of patient care and avoid delays in service provision.

Mitigation

We continue to prioritise and enhance our infection control and prevention ("ICP") programme. New ICP working groups and multidisciplinary infection control committees were established in the hospitals and in the head office. Infection control nurse position was set up in referral hospitals and specially selected and trained nurses were appointed.

ICP protocols and related standard operating procedures ("SOPs") were standardised and implemented network-wide in accordance with national and international recommendations. Databases for hospital acquired infections, antimicrobial resistance ("AMR") and antibiotic use were created.

We also continue to work closely with the US Centre for Disease Control and Prevention representatives in South Caucasus (the "CDC"). CDC experts work closely with the Chief Quality Officer, Chief Medical Officer, Chief Epidemiologist and experienced practitioners responsible for overseeing infection and communicable disease control and prevention at our facilities.

Infection control and prevention is a standing agenda item each time the Clinical Quality and Safety Committee meets (at least quarterly) to review our clinical services and performance, internal governance and controls as well as compliance.

We have implemented strict procedures that adhere to regulations and best practice, including an Environmental and Social Policy, in relation to the proper handling of waste and its safe disposal.

We continue to improve the clinical risk management activities and incorporate them in overall risk management.

Based on data analysis and case reviewing results several improvement projects were conducted network-wide in 2018: Early Sepsis Management, Surgery Care Improvement and Community Acquired Pneumonia Management and Rational Antibiotic Therapy Improvement projects.

Principal risks and uncertainties continued

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Clinical risk continued		
Failures in patient, visitor or staff safety may also result in: • damage to our patients and negatively impact outcome of treatment; • decreased patient trust in our services; • damage to our reputation which may result in an inability to attract new patients or retain existing patients; • claims for damages; • occupational health hazards for our staff and resulting staffing shortages; and/or • operational limitations imposed by our regulators. Failure to maintain medical equipment could result in: • decrease in quality of patient care and safety and decreased patient trust in our services which may result in an inability to attract new patients or retain existing patients.		We have developed and implemented personnel safety policy, self-injury reporting system and injured personnel management system, which includes their treatment. Safety is one of our permanent priorities. It implies not only human activities but also safe construction and design of medical facilities. Therefore, our infection control and safety risk assessment principles are worked out and integrated in facility planning, design and construction activities. Occupational safety was also enhanced during 2018. A framework document was created and several activities were conducted based on this document, specifically: B and C hepatitis screening was performed for our staff network-wide, B hepatitis vaccination was started and influenza vaccination was performed. Incident reporting system, an important aspect of occupational safety, was created in 2018. Implementation included corresponding trainings for staff skills improvement. Members of the Clinical Quality and Safety Committee and the wider Board also perform on-site visits and hold discussions with management to review practices and to discuss quality and safety with key practitioners. Finally, accounting and post-exposure management of incidents is in place and we cover all expenses related to follow-up management and treatment of injured personnel. We have an equipment maintenance and monitoring programme in place, which puts considerable emphasis on activities required for proper functioning of high-tech medical equipment. We regularly work to improve the programme and implement new and more effective approaches to medical equipment maintenance.

Concentration of revenue

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Our healthcare services business depends on revenue from the Georgian Government and a small number of private insurance providers. Payments by the Government under UHC may be delayed, whilst the private insurance companies we work with may experience financial difficulties and fail, or fail to pay the claims we submit to them for healthcare services provided to patients covered by their services. **Impact** Reduction of prices or increased time taken to pay, including delayed payment under the UHC, would affect the revenues, receivables outstanding and profitability of the Group.	Our ability to obtain favourable prices will depend in part on our ability to maintain good working relationships with private insurance providers and may be impacted by any changes to state-funded healthcare programmes.	The UHC remains a significant priority for the Government. Government expenditure on healthcare in 2019 is budgeted at GEL 1,146 million, which represents 8.8% of the approved state budget for 2019. We monitor the macroeconomic environment in Georgia and budgetary performance of the Government to assess the forecasted future cash flows from the state. We actively seek to increase our share in the outpatient and planned medical services markets, which are funded either by patients out-of-pocket or by private insurance, thus reducing our dependence on the state insurance programme. Our medical insurance business has won two large tenders close to year end, retaining the country's largest insurance client – the Ministry of Internal Affairs with c.75,000 insured, and acquiring a significant new corporate client – the Ministry of Defence with c.60,000 insured. As a result, we expect the number of the Groups' insured individuals to increase and reach approximately 230,000 in 2019, which will make us the largest insurer in the country. We have diversified our portfolio by the addition of pharmaceutical, retail and wholesale business lines.

Currency and macroeconomic

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
The Group is exposed to foreign currency risk, as a significant proportion of the medical equipment and pharmaceuticals we purchase is denominated in US dollars and/or Euro but our revenues are in Lari. A portion of our borrowings, particularly from Development Financial Institutions, is foreign currency-denominated. The Group also faces macroeconomic risk. There could be developments which have an adverse effect on the country, regional or macro economy such as reduced GDP or significant inflation. **Impact** Depreciation of the Lari against the US dollar and/or Euro and/or negative macroeconomic developments may have an adverse effect on our business including putting adverse pressure on our business model, revenues, financial position and cash flows.	There have been significant fluctuations in foreign currency exchange rates during 2018 with the Lari eventually depreciating by 3.3% against the US dollar and appreciating by 1.1% against the Euro as of 31 December 2018 (compared to prior year end). Annual inflation rate has decreased to 1.5% in December 2018 from 6.7% last year. The GDP story in Georgia remains positive. Real GDP growth in Georgia is estimated at 4.7% in 2018 similar to 4.8% in 2017 and a modest 2.8% in 2016. The Georgian Government's fiscal position continues to be strong.	We actively monitor market conditions and our currency positions and performs stress and scenario tests in order to assess our financial position and adjust strategy accordingly. Foreign currency exposure is actively hedged by foreign currency forward contracts as well as regular operational decisions. We adjust our prices to reflect the fluctuations in foreign currency exchange rates and reduce their impact where possible. The Group takes into account the volatility of the Lari in pricing discussions with counterparties. In 2018, we remained focused on maintaining mostly local currency borrowings. As of year end 2018, more than 80% of Group's borrowings is denominated in local currency.

Principal risks and uncertainties continued

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Information technology and operational		
We face information technology and operational risk. A cyber attack, security breach or unauthorised access to our systems could cause important or confidential data to be misappropriated, misused, disseminated or lost. In addition, improper access or information misappropriation may lead to insider trading or other illegal actions by employees or others. Software or network disruption may also cause the Group to experience lost revenue, failed customer transactions or non-timely submission of regulatory or other reports. Non-recurring operational risks include incurring loss or unexpected expenses from system failure, human error, fraud or other unexpected events. **Impact** Any of the above could lead to disruption of our business and operations, affect patient and customer loyalty, subject us to state and Governmental investigation, litigation, damages, penalties and/or reputational damage.	We hold confidential data about our patients and customers given the nature of our healthcare services and must be vigilant to guard data privacy. Cyber security threats are increasing year after year. The Group has expanded and has increasingly complex operations to manage, including the pharmaceutical business acquired in the previous years.	In 2017-2018, we have formed an Information and Corporate Security Department at Group level and appointed experienced professionals to it. A strategy and action plan has been defined and set for 2018 and further. We have completed a centralised, GHG-wide IT infrastructure (hardware and network) that has enhanced the Group's overall information and cyber security level. We continue to design and implement new business processes and risk management structures to better manage the business and to help mitigate our operational risks. Internal Audit conducts regular reviews of IT controls such as the policies for information storage, availability and access, while updating its assessment of risks and recommendations. Internal Audit reports to the Audit Committee on its findings.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Regional tensions		
The Georgian economy and our business may be adversely affected by regional tensions and instability. The Group's operations are located in, and its revenue is sourced from, Georgia. The Georgian economy is dependent on neighbouring economies, in particular Russia, Turkey, Azerbaijan and Armenia, which are key trading partners. There has been ongoing geopolitical tension, political instability, economic instability and military conflict in the region, which may have an adverse effect on our business and financial position. **Impact** The prolongation or escalation of political instability, geopolitical conflict, economic decline of Georgia's trading partners and any future deterioration of Georgia's relationship with Russia, including in relation to border and territorial disputes, may have a negative effect on the political or economic stability of Georgia, which in turn may have an adverse effect on our business including putting adverse pressure on our business model, our revenues and our financial position.	Russian troops continue to occupy the Abkhazia and the Tskhinvali/South Ossetia regions and tensions between Russia and Georgia persist. Russia is opposed to the eastward enlargement of NATO, potentially including former Soviet republics such as Georgia. The introduction of a preferential trade regime between Georgia and the EU in July 2016 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017 temporarily intensified tensions between countries. The Government has taken certain steps towards improving relations with Russia, but, as of the date of this Annual Report, these have not resulted in any formal or legal changes in the relationship between the two countries. Relations between Russia and Turkey remain uncertain, certain sanctions and legal limitations on Turkish nationals remain. Amendments to the Turkish constitution were implemented in June 2018. The amendments, which grant the president wider powers, are expected to transform Turkey's system of government away from a parliamentary system. In June 2018 President Recep Tayyip Erdogan won a new five-year term. His policy to influence interest rates questions Central Bank's credibility and increases risks of capital outflow, which will negatively affect our region. Conflict between Azerbaijan and Armenia is ongoing.	We actively monitor risks related to regional tensions and political instability and develop responsive strategies and action plans. Despite tensions in the breakaway territories, Russia has continued to open its market to Georgian exports since 2013. In 2018, regional trading partners' demand for Georgian goods and services continued to increase. The Georgian tourism sector increasingly benefits from growing Russian arrivals as well as other visitors from regional countries. While financial market turbulences and geopolitical tensions affects regional trading partners, Georgia's preferential trading regimes and FTA's support the country's focus on enhancing resilience to external shocks.

Business review – overview of financial results

Discussion of the Group results

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	FY18	FY17	Change, Y-o-Y
Revenue, gross	**849,917**	**747,750**	**13.7%**
Corrections and rebates	(3,611)	(2,039)	77.1%
Revenue, net	**846,306**	**745,711**	**13.5%**
Revenue from healthcare services	301,987	263,357	14.7%
Revenue from pharmacy and distribution	518,578	450,315	15.2%
Net insurance premiums earned	55,112	53,710	2.6%
Eliminations	(29,371)	(21,671)	35.5%
Costs of services	**(577,705)**	**(517,712)**	**11.6%**
Cost of healthcare services	(174,073)	(150,572)	15.6%
Cost of pharmacy and distribution	(386,372)	(340,210)	13.6%
Cost of insurance services	(45,427)	(48,583)	-6.5%
Eliminations	28,167	21,653	30.1%
Gross profit	**268,601**	**227,999**	**17.8%**
Salaries and other employee benefits	(84,509)	(75,430)	12.0%
General and administrative expenses	(54,436)	(48,618)	12.0%
Impairment of receivables	(4,448)	(4,175)	6.5%
Other operating income	7,066	8,372	-15.6%
EBITDA	**132,274**	**108,148**	**22.3%**
Depreciation and amortisation	(33,883)	(25,704)	31.8%
Net interest expense	(39,470)	(30,941)	27.6%
Net gains/(losses) from foreign currencies	(2,879)	(397)	NMF
Net non-recurring income/(expense)	(2,187)	(4,780)	-54.2%
Profit before income tax expense	**53,855**	**46,326**	**16.3%**
Income tax benefit/(expense)	(616)	(386)	59.6%
Profit for the period	**53,239**	**45,940**	**15.9%**
Attributable to:			
– shareholders of the Company	34,434	29,050	18.5%
– non-controlling interests	18,805	16,890	11.3%

Gross revenue
In 2018, the Group y-o-y double-digit revenue growth was driven by pharmacy and distribution and healthcare services businesses. In 2018, 59% of our revenues came from the pharmacy and distribution business, 34% from the healthcare services business and the remaining 7% from the medical insurance business. By payor mix, 54% of the Group's total revenue was from out-of-pocket payments[1], 24% from UHC payments and 22% from other sources.

Gross profit
We delivered increasing gross profit in 2018. The Group's gross margin improved to 31.6% in FY18 (30.5% in FY17). The pharmacy and distribution business was major contributor to this growth, partly as a result of successful ongoing negotiations with manufacturers for price discounts. The next biggest contributor to the Group's margin enhancement was our medical insurance business, which considerably reduced its loss ratio during 2018, as a result of improvement measures implemented since 2Q17. In 2018, our newly-launched healthcare facilities and services remained in their initial roll-out phase, affecting healthcare services business margins, which were slightly subdued. Excluding the impact of hospitals' roll-outs, the existing business' gross margin improved by 30 bps in 2018 – mainly as a result of focused efficiency measures.

EBITDA
EBITDA was up y-o-y 22.3% in 2018. The healthcare services business was the main contributor to the Group's 2018 EBITDA, contributing 57% in total, with a 24.9% EBITDA margin. The next largest contributor was the pharmacy and distribution business with a 39% share, while posting strong EBITDA margin – 10.1%. Our medical insurance business contributed 4% to the Group's full year EBITDA, compared to negative contribution in prior year.

Depreciation and amortisation
This year's increased depreciation and amortisation expense now fully reflects the Group's recent investment in sizeable development projects in our healthcare business, launching new healthcare facilities and a number of new services.

Net interest expense. The y-o-y increase in net interest expense was in line with the increased balance of borrowed funds, mainly to finance planned capital expenditure. Starting from 2019 we expect the Group's leverage to decrease gradually in line with the debt principal repayment schedule, reducing interest expense.

Loss from foreign currencies. The loss from foreign currencies is attributable to the pharmacy and distribution business. About 70% of inventory purchases in the pharmacy and distribution business are denominated in foreign currency: c.40% in Euro and c.30% in US dollars.

Profit
The pharmacy and distribution business was the main driver of the 2018 GHG profit (up 15.9% y-o-y), contributing GEL 34.2 million, followed by the healthcare services contributing GEL 16.1 million. The medical insurance businesses also contributed positively into the Group full year profit – GEL 2.9 million, compared to negative contribution of GEL 2.6 million in 2017.

1 Includes: healthcare services out-of-pocket revenue, pharmacy and distribution and medical insurance businesses' revenue from retail.

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	31 Dec 18	31 Dec 17	Change, Y-o-Y
Total assets, of which:	1,240,506	1,180,838	5.1%
Cash and bank deposits	47,961	63,608	-24.6%
Receivables from healthcare services	106,841	100,944	5.8%
Receivables from sale of pharmaceuticals	20,440	19,798	3.2%
Insurance premiums receivable	23,643	20,233	16.9%
Property and equipment	698,037	642,859	8.6%
Goodwill and other intangible assets	152,298	143,674	6.0%
Inventory	146,164	131,849	10.9%
Prepayments	13,064	30,354	-57.0%
Other assets	32,058	27,519	16.5%
Total liabilities, of which:	665,475	632,438	5.2%
Borrowed funds	390,390	360,503	8.3%
Accounts payable	105,092	105,963	-0.8%
Insurance contract liabilities	22,544	20,953	7.6%
Other liabilities	147,449	145,019	1.7%
Total shareholders' equity attributable to:	575,031	548,400	4.9%
Shareholders of the Company	508,194	483,684	5.1%
Non-controlling interest	66,837	64,716	3.3%

- Our asset base has grown substantially over the last few years, reaching GEL 1.2 billion in 2018, reflecting investment in the renovation of hospitals, elective care services and new polyclinic roll-outs.
- The decrease in our prepayments balance is also due to the completion of our big renovation projects in 2018.
- The increase in inventory and accounts payables is mainly due to the pharmacy and distribution business, increasing its stock by year end to support the seasonally strong fourth quarter.

IFRS 16

The Group will adopt IFRS 16 "Leases" from 1 January 2019. A key change arising from IFRS 16 is that rent expense will be reclassified to interest and depreciation expense. According to the Group's preliminary calculation, IFRS 16 annual positive impact on the Group's EBITDA will be around GEL 19 million, of which the pharmacy and distribution business will account for GEL 17 million. The negative impact on the Group's net profit is estimated around GEL 2.7 million, however, negative impact on net profit is just a timing difference that decreases over time and eventually becomes positive with net effect of zero. Assets and liabilities will also increase by the amount of discounted cash flows of future rent payments. In 2019 we are going to disclose the numbers with and without IFRS 16 for the comparison purposes.

Statements of cash flow, GHG consolidated

GEL thousands; unless otherwise noted	FY18	FY17	Change, Y-o-Y
EBITDA	132,274	108,148	22.3%
Net cash flows from operating activities	99,580	58,239	71.0%
EBITDA to cash conversion	75%	54%	
Net cash used in investing activities, of which:	(85,347)	(128,748)	-33.7%
Purchase of PPE and intangibles	(70,123)	(93,808)	-25.2%
Net cash flows from financing activities	(26,917)	96,647	-127.9%
Effect of exchange rate changes	(2)	(537)	-99.6%
Net increase (decrease) in cash and cash equivalents	(12,686)	25,601	NMF
Cash at period, beginning	48,840	23,239	110.2%
Cash at period, ending	36,154	48,840	-26.0%
Bank deposits, beginning	14,768	23,876	-38.1%
Bank deposits, ending	11,807	14,768	-20.1%
Cash and bank deposits, beginning	63,608	47,115	35.0%
Cash and cash deposits, ending	47,961	63,608	-24.6%

Cash flows from operating activities. Net cash flows from operating activities increased substantially in 2018 to GEL 99.6 million partly on the back of stronger EBITDA, but also partly on the back of a substantially improved EBITDA to cash conversion ratio. In 2017 the Group's heavy investment phase and preparation to open the new healthcare facilities and services increased our working capital needs, which was then reflected in the Group's EBITDA to cash conversion ratio. The benefits of the different openings of our new facilities started to materialise in 2018 and to contribute in the Group's results, which together with reduced working capital needs, enabled us to improve our EBITDA to cash conversion ratio considerably to 75.3%. Going forward we expect further improvement of this ratio.

Cash flows from investing activities. Net cash used in investing activities declined substantially to GEL 85.3 million. 2018 was the final year of our major investment programme and investment volume slowed (outflow for purchase of PPE and intangibles down 25.2% y-o-y) as the projects completed. In 2018, net cash used in investing activities also includes GEL 12.9 million payment of holdback for the pharmacy and distribution business acquisition.

Business review – overview of financial results continued

Cash flows from financing activities. With our improved operational cash flow and declining investment volume, the Group has stabilised the needs for new borrowings. Net outflow from financing activities totalled GEL 26.9 million, which reflects only marginal excess of new funding over the repaid borrowings during the year and interest payments.

The overall effect resulted in cash and bank deposits at year end of GEL 48.0 million, down by GEL 15.6 million.

For 2019, we expect substantially a reduced investment programme. Together with a continuing increase in operating cash flow, this should allow both a further reduction of debt and an increase in cash y-o-y.

Discussion of segment results

The segment results discussion is presented for the healthcare services, pharmacy and distribution, and medical insurance businesses.

Discussion of healthcare services business results

Income statement, healthcare services business

GEL thousands; unless otherwise noted	FY18	FY17	Change, Y-o-Y
Healthcare service revenue, gross	305,598	265,396	15.1%
Corrections and rebates	(3,611)	(2,039)	77.1%
Healthcare services revenue, net	301,987	263,357	14.7%
Costs of healthcare services	**(174,073)**	**(150,572)**	**15.6%**
Gross profit	**127,914**	**112,785**	**13.4%**
Salaries and other employee benefits	(35,178)	(30,998)	13.5%
General and administrative expenses	(18,079)	(16,392)	10.3%
Impairment of receivables	(4,632)	(4,107)	12.8%
Other operating income	5,983	8,783	-31.9%
EBITDA	**76,008**	**70,071**	**8.5%**
EBITDA margin	**24.9%**	**26.4%**	
Depreciation and amortisation	(30,772)	(22,699)	35.6%
Net interest income (expense)	(27,567)	(18,210)	51.4%
Net gains/(losses) from foreign currencies	(171)	1,634	NMF
Net non-recurring income/(expense)	(1,328)	(3,425)	-61.2%
Profit before income tax expense	**16,170**	**27,371**	**-40.9%**
Income tax benefit/(expense)	(37)	(11)	236.4%
Profit for the period	**16,133**	**27,360**	**-41.0%**
Attributable to:			
– shareholders of the Company	12,306	21,643	-43.1%
– non-controlling interests	3,827	5,717	-33.1%

Revenue, healthcare services business

We enjoyed double-digit y-o-y revenue growth in 2018 in healthcare services business. The following discussion analyses revenue growth by type of healthcare facility and source of payment.

Revenue by types of healthcare facilities

GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Healthcare services revenue, net	**301,987**	**263,357**	**14.7%**
Referral hospitals	256,774	225,502	13.9%
Clinics:	45,213	37,855	19.4%
Community	24,283	22,147	9.6%
Polyclinics	20,930	15,708	33.2%

In 2018, **referral hospitals** contributed 85% of the total revenue from our healthcare services. The y-o-y revenue growth in referral hospitals is mainly a result of a successful ramp-up of the newly-launched hospitals (for more information please refer on page 12). Apart from the contribution from our newly-opened hospitals, the revenue increase is attributable to the demand for current services at our existing facilities where we are continuously adding new services.

In 2018, **clinics** contributed 15% of the total revenue from healthcare services, out of which 7% came from polyclinics and 8% from community clinics.

The growth in revenue from polyclinics in 2018 (up 33.2% y-o-y) was driven by our expansion strategy and increased number of registered patients. We added two polyclinics at the end of 2017 and one in 2018 to consolidate our position as the largest player in the highly-fragmented outpatient market in Georgia. The number of registered patients has increased and reached c.150,000 as of February 2018 (up from c.93,000 in 2017), further supporting polyclinics revenue growth.

The y-o-y increase in revenue from community clinics was mainly organic. These clinics play a feeder role for the referral hospitals, so we expect their revenue growth to be slower going forward compared to the growth of referral hospital revenue.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Healthcare services revenue, net	**301,987**	**263,357**	**14.7%**
Government-funded healthcare programmes	201,163	177,449	13.4%
Out-of-pocket payments by patients	78,492	64,878	21.0%
Private medical insurance companies, of which	22,332	21,030	6.2%
GHG medical insurance	10,727	9,475	13.2%

All payment sources contributed to our revenue growth. Notwithstanding that Government-funded healthcare programmes remained the main contributor to our healthcare services revenues, we continue to make strong progress towards our goal to diversify our earnings. The share of Government financing in the healthcare services business revenue decreased by 80 bps in 2018 (from 67.4% in 2017 to 66.6% in 2018), while the share of out-of-pocket payment increased by 140 bps (from 24.6% in 2017 to 26.0% in 2018).

This is driven by growth in the number of elective services we provide in our hospitals, by the launch of the Regional Hospital (the main focus of which is on providing a higher level of elective care services) as well as by the enhanced footprint of our polyclinics, which are partially or fully funded out-of-pocket. The further ramp-up of the Regional Hospital and the continued expansion of our polyclinics business are expected to further support increasing trend of out-of-pocket revenue share in the overall mix.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Cost of healthcare services	(174,073)	(150,572)	15.6%
Cost of salaries and other employee benefits	(109,478)	(95,655)	14.5%
Cost of materials and supplies	(47,504)	(40,887)	16.2%
Cost of medical service providers	(3,347)	(1,920)	74.3%
Cost of utilities and other	(13,744)	(12,110)	13.5%
Gross profit	127,914	112,785	13.4%
Gross margin	41.9%	42.5%	
Cost of healthcare services as % of revenue			
Direct salary rate	35.8%	36.0%	
Materials rate	15.5%	15.4%	

The recent launches of hospitals naturally increased our cost base, mainly cost of materials and cost of utilities. The materials rate excluding the effect of newly-launched hospitals remained well-controlled and stood at 15.1% in 2018. Despite the fact that some healthcare facilities are in their early roll-out phase, as a result of focused efficiency initiatives, we managed to slightly decrease the direct salary rate in 2018. Engaging in state oncology programme increased the cost of service providers in the regions, where we have no presence.

We expect the direct salary rate and materials rate to improve further as we complete the ramp-up phase of the newly-launched hospitals and services and continue our focus to drive efficiencies across our healthcare facilities and improve our margins.

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Operating expenses	(51,906)	(42,714)	21.5%
Salaries and other employee benefits	(35,178)	(30,998)	13.5%
General and administrative expenses	(18,079)	(16,392)	10.3%
Impairment of receivables	(4,632)	(4,107)	12.8%
Other operating income	5,983	8,783	-31.9%
EBITDA	76,008	70,071	8.5%
EBITDA margin	24.9%	26.4%	

The increase in operating expenses on a y-o-y basis is primarily driven by the expansion of the business as well as the new openings. The decrease in other operating income reflects the accounting impact of the call option (exercisable in 2023) on the remaining 33% non-controlling minority interest in Pharmadepot (the pharmacy and distribution brand acquired in 2017).

The healthy increases in full year EBITDA reflects the EBITDA contributions of our two new flagship hospitals and polyclinics, increased demand for current services at our existing facilities and efficiency initiatives implemented. EBITDA margins, however, were down somewhat mainly due to three factors: (1) the roll-out phase of the newly-opened facilities; (2) the Government's UHC changes which reduced our revenue from May 2017 and that have full effect in 2018; and (3) the accounting effect of the call option mentioned above.

The EBITDA margin for referral hospitals and community clinics was 25.7% in 2018 (27.2% in 2017). Excluding the dilutive effect of roll-outs, the EBITDA margin was towards our targeted level in 2018 – at 28.7%.

The polyclinics' EBITDA margin stood at 13.0% for 2018, compared to 13.2% in 2017. After the roll-out phase is completed, we expect the run rate EBITDA margin for our polyclinics to increase.

With the gradual ramp-up of the newly-opened healthcare facilities we expect the healthcare services EBITDA margin to improve over the next few quarters.

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Depreciation and amortisation	(30,772)	(22,699)	35.6%
Net interest income (expense)	(27,567)	(18,210)	51.4%
Net gains/(losses) from foreign currencies	(171)	1,634	NMF
Net non-recurring income/(expense)	(1,328)	(3,425)	-61.2%
Profit before income tax expense	**16,170**	**27,371**	**-40.9%**
Income tax benefit/(expense)	(37)	(11)	236.4%
Profit for the period	**16,133**	**27,360**	**-41.0%**

Since the launch of the Regional Hospital (March 2018), the accounting impact of the Group's investments in new hospitals on depreciation and amortisation expense is now fully reflected in our results. Going forward we expect only modest increases in depreciation and amortisation reflecting the completion of our Mega Lab (launched in December 2018) and smaller investments in new equipment mainly in connection with the roll-out of new services.

The increase in net interest expense reflects the increase in our total borrowing balance to finance planned capital expenditure. Interest expense is expected to decline over the next few years, as we reduce our debt balance.

Operating highlights:

- Our adjusted referral hospital bed occupancy rate[1] was at 63.3% in 2018 (64.5% in 2017).
- The average length of stay at referral hospitals[2] was 5.4 days in 2018 (5.5 days in 2017).
- Excluding newly-launched hospitals, the average revenue per referral hospital bed was KGEL 107.9 (KUS$ 40.3) in 2018, compared to KGEL 103.2 (KUS$ 39.8) in 2017.

1 Adjusted to exclude the Tbilisi Referral Hospital and the Regional Hospital; the calculation also excludes emergency beds.
2 The calculation also excludes emergency beds.

Business review – overview of financial results continued

Discussion of pharmacy and distribution business Results

Income Statement, pharmacy and distribution business

GEL thousands; unless otherwise noted	FY18	FY17	Change, Y-o-Y
Pharma revenue	518,578	450,315	15.2%
Costs of pharma	(386,372)	(340,210)	13.6%
Gross profit	132,206	110,105	20.1%
Salaries and other employee benefits	(45,925)	(40,679)	12.9%
General and administrative expenses	(35,169)	(31,180)	12.8%
Impairment of receivables	–	(44)	NMF
Other operating income	1,103	652	69.2%
EBITDA	52,215	38,854	34.4%
EBITDA margin	10.1%	8.6%	
Depreciation and amortisation	(2,352)	(2,110)	11.5%
Net interest income (expense)	(11,924)	(11,936)	-0.1%
Net gains/(losses) from foreign currencies	(2,923)	(2,065)	41.5%
Net non-recurring income/(expense)	(859)	(1,496)	-42.6%
Profit before income tax expense	34,157	21,247	60.8%
Income tax benefit/(expense)	–	(65)	NMF
Profit for the period	34,157	21,182	61.3%

Revenue and gross profit, pharmacy and distribution business

We enjoyed strong, double-digit revenue growth in both our retail and distribution businesses as shown in the table below.

Revenue by types at pharma

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Pharmacy and distribution revenue	518,578	450,315	15.2%
Revenue from retail	384,109	336,366	14.2%
Revenue from distribution	134,469	113,949	18.0%
Pharma business revenue from Retail % of total revenue	74.1%	74.7%	
Gross profit margin	25.5%	24.5%	

The increase in y-o-y revenues from retail is attributable to the expansion and organic sales growth of the business. In 2018 we have added 15 new pharmacies in our chain and by the end of the year number of pharmacies reached 270. We are heading towards a total of 300 pharmacies over next few years. Due to active marketing campaigns, promotions and other sales initiatives, the business posted strong y-o-y same-store growth of 8.5% in 2018, as a result the number of bills issued in our pharmacies increased by 7.2% over the same period. Average bill size also increased and reached GEL 13.4 in 2018. The share of parapharmacy sales in retail revenue was 29.6%.

In 2018, the pharmacy and distribution business made a strong progress in growing wholesale revenue in hospitals and pharmacies by signing new corporate accounts – a strategic priority. Acquiring new corporate accounts and actively engaging in state programmes have resulted in the double-digit growth of revenue from distribution.

Gross profit margin in the pharmacy and distribution business improved dramatically, up 100 bps y-o-y, as the business continued to extract procurement synergies throughout the year. The increase was mainly driven by the increased margin on non-medication categories (personal care, beauty and other parapharmacy products), total sales of which was GEL 118.3 million in 2018 with 30% gross profit margin, compared to GEL 107.4 million in 2017 with 27% gross profit margin.

Our gross profit margins also benefit from the increased sales of private label products. Currently, 37 private label medicines are presented in our pharmacies, with revenue contribution of GEL 4.8 million in 2018, up 21.8% y-o-y. In the first half of 2019, private label personal care products will also be introduced in our pharmacies under the brand name "Attirance". We will offer a wide range of personal care products and significantly enhance our position as market leader in this segment.

EBITDA, pharmacy and distribution business

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Operating expenses	(79,991)	(71,251)	12.3%
Salaries and other employee benefits	(45,925)	(40,679)	12.9%
General and administrative expenses	(35,169)	(31,180)	12.8%
Impairment of receivables	–	(44)	NMF
Other operating income	1,103	652	69.2%
EBITDA	52,215	38,854	34.4%
EBITDA margin	10.1%	8.6%	

The business posted y-o-y positive operating leverage of 7.8 ppts. Salaries and other employee benefits as well as general and administrative expenses favourably lagged behind revenue growth. Apart from business expansion, the increase in general and administrative expenses is mainly attributable to marketing activities to support revenue growth and slightly increased rent expense due to the GEL devaluation in 2018.

Our full year EBITDA margin substantially exceeded our 2018 "more than 8%" medium-term target.

Profit for the period, pharmacy and distribution business

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Depreciation and amortisation	(2,352)	(2,110)	11.5%
Net interest income (expense)	(11,924)	(11,936)	-0.1%
Net gains/(losses) from foreign currencies	(2,923)	(2,065)	41.5%
Net non-recurring income/(expense)	(859)	(1,496)	-42.6%
Profit before income tax expense	34,157	21,247	60.8%
Income tax benefit/(expense)	–	(65)	NMF
Profit for the period	34,157	21,182	61.3%

In 2018 interest expense included GEL 1.1 million from unwinding of discount of the Pharmadepot (the pharmacy and distribution brand acquired in 2017) remaining acquisition holdback, compared to GEL 1.8 million in 2017, which is a non-cash expense.

Operating highlights:

- Retail customer interactions per month was c.2.3 million in 2018 (c.2.1 million in 2017).
- Average bill size was GEL 13.4 million in 2018 (GEL 13.3 million in 2017).
- C.0.7 million loyalty card members as at February 2019.

Discussion of medical insurance business results

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	FY18	FY17	Change, Y-o-Y
Net insurance premiums earned	55,112	53,710	2.6%
Cost of insurance services	(45,427)	(48,583)	-6.5%
Gross profit	9,685	5,127	88.9%
Salaries and other employee benefits	(4,434)	(3,601)	23.1%
General and administrative expenses	(1,459)	(1,636)	-10.8%
Impairment of receivables	(362)	(479)	-24.4%
Other operating income	621	153	NMF
EBITDA	4,051	(436)	NMF
EBITDA margin	7.4%	-0.8%	
Depreciation and amortisation	(759)	(895)	-15.2%
Net interest income/(expense)	21	(795)	NMF
Net gains/(losses) from foreign currencies	215	34	NMF
Net non-recurring income/(expense)	–	(200)	NMF
Profit before income tax expense	3,528	(2,292)	NMF
Income tax benefit/(expense)	(579)	(310)	86.8%
Profit/(Loss) for the period	2,949	(2,602)	NMF

Our medical insurance business has implemented significant initiatives and changes during the last 18 months. Better terms negotiated with healthcare services providers and pharmacies and a repriced portfolio have resulted in a solid contribution to the Group's EBITDA and profit in 2018.

Revenue, medical insurance business
After changes implemented since 2Q17 to adjust prices or terminate loss-making contracts, the business started to attract new clients with adjusted pricing, that resulted in y-o-y revenue growth. By winning two important tenders at the end of 2018, the business is expected to continue its profitable growth in 2019 and to further increase its claims retention rate within the Group.

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Cost of insurance services	(45,427)	(48,583)	-6.5%
Net insurance claims incurred	(42,584)	(45,209)	-5.8%
Agents, brokers and employee commissions	(2,843)	(3,374)	-15.7%
Gross profit	9,685	5,127	88.9%
Loss ratio	77.3%	84.2%	

In 2018 the loss ratio was maintained below our targeted level (c.80%), down 6.9 ppts y-o-y.

Our insurance business expansion has significantly improved claims retention rates within the Group, as business plays a feeder role in originating and directing patients to our healthcare facilities, mainly to polyclinics and to pharmacies. In 2018, our medical insurance claims expense was GEL 42.6 million, of which GEL 16.5 million (38.6% of total) was inpatient, GEL 17.0 million (40.1% of total) was outpatient and GEL 9.1 million (21.3% of total) accounted for drugs.

Claims retention rates

	YE18	YE17	Change, Y-o-Y
Total claims retained within the Group	39.4%	34.7%	+4.7 ppts
Total claims retained in polyclinics	38.7%	34.4%	+4.3 ppts

Due to the medical insurance business' increased client base (reaching c.230,000 insured in February 2019) and new flagship hospital launches in Tbilisi, where our medical insurance business has the highest concentration of its insured clients, more of our medical insurance customers will be utilising our inpatient services. At the same time, with our polyclinics expansion strategy, we expect the retention rate to improve further in the future, on a larger base, providing a significant revenue boost for our healthcare services business. Our facilities are increasingly favoured by these customers over competitor facilities due to the quality and convenience of our service, access to one-stop-shop style polyclinics and the ease of claim reimbursement procedures.

EBITDA and profit, medical insurance business

(GEL thousands, unless otherwise noted)	FY18	FY17	Change, Y-o-Y
Operating expenses	(5,634)	(5,563)	1.3%
Salaries and other employee benefits	(4,434)	(3,601)	23.1%
General and administrative expenses	(1,459)	(1,636)	-10.8%
Impairment of receivables	(362)	(479)	-24.4%
Other operating income	621	153	NMF
EBITDA	4,051	(436)	NMF
Expense ratio	16.8%	18.3%	
Combined ratio	94.0%	102.5%	

The increase in salaries and other employee benefits is related to staff bonuses for delivering business strategic priorities and outstanding performance.

Optimisation of operating expenses drove general and administrative expenses down y-o-y in 2018. In line with our strategy to create new revenue sources, the medical insurance business began participating in the Compulsory Motor Third Party Liability Insurance Programme, effective in the country from 1 March 2018. The profit from this is shown in other operating income. As a result, the expense ratio was up 150 bps and combined ratio down 8.5 ppts, y-o-y.

Due to efficient allocation of cash resources, our medical insurance business posted net interest income in FY18.

Operating highlights:

- Our insurance renewal rate was 69.7% in 2018 (76.9% in 2017).

Directors' Governance Statement

Bill Huyett
Chairman

David Morrison
Senior Independent Non-Executive Director

Dear shareholders,

Our Board recognises the importance of, and is committed to maintaining, the highest standards of corporate governance and is convinced of the strategic and operational benefits that good governance brings. We are pleased with the range of corporate governance actions we have taken this year, the main highlights of which are set out below.

The Board is entirely committed to the principles of good corporate governance. Good governance gives us as a Board confidence that we are making decisions that are truly in the Group's long-term interest. It allows us to take into account the opinions of our stakeholders, including our shareholders, our customers, our employees and our suppliers. It allows us to be a positive driver for the healthcare sector and for the society we operate in more widely.

For the purposes of this Report, we report against the 2016 UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council ("FRC") and are now compliant with each of the principles and provisions of the Code. Please see our Compliance Statement for changes made across the year. All Directors are fully aware of their duties and responsibilities under the Code, the Listing Rules, and the Disclosure Guidance and Transparency Rules.

Governance highlights

- We reviewed the strategic direction of the Group and supported the development of our strategy to grow our healthcare services business through rolling out a network of new polyclinics, the development of medical tourism and other initiatives.
- We received detailed updates on a number of our core operational functions, including the development of a customer application for healthcare services, which we are confident will have wide-ranging benefits for our customers.
- Through our Audit and Clinical Quality and Safety Committees, we engaged with and maintained oversight of the Internal Audit and the Clinical Audit Process Units, ensuring a sound system of control and that our activities cover the rapidly evolving business. We received reports and discussed with management the improved controls and reporting in our hospitals and the harmonised health and safety procedures being put into place.
- We appointed an independent firm specialising in Board evaluations, to conduct a formal evaluation of the Board as a whole and its Committees. We were pleased with the results of the evaluation and are confident that the Board has a good balance of skills, experience and diversity of personality and backgrounds that encourages open, transparent debate and change. We also refreshed the membership of the Committees after this evaluation.

The Board has been briefed on the revisions made to the Code for the 2019 reporting year, as well as additional legislation introduced by the Government. Extensive work has already been undertaken to ensure the Company's compliance against the provisions and principles in the new Code and we look forward to providing an update in next year's Annual Report on the steps we have put in place to align ourselves with the additional requirements.

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

Bill Huyett
Chairman
2 April 2019

David Morrison
Senior Independent Non-Executive Director
2 April 2019

Compliance statement

Throughout the year ended 31 December 2018, we applied the main Principles and complied with the Provisions of the 2016 UK Corporate Governance Code (except for D.2.1 and A.3.1 for which we became compliant during the year as explained below). The Code and associated guidance is published by the Financial Reporting Council and is available at www.frc.org.uk.

We engaged with investors following last year's AGM and made some important changes in response to matters that were raised. In response to concerns expressed by investors on the composition of the Remuneration Committee (D.2.1), we took action to ensure that all members of the Remuneration Committee are independent, in line with the Code, by the end of 2018.

We were also mindful of the need to address the temporary solution we had in place for our Audit Committee in 2018, and took action to ensure that only independent members of the Board sit on the Audit Committee.

Finally, with a view to further emphasise the independence of the Group's governance from that of its majority shareholder Georgia Capital, Irakli Gilauri suggested to the Board that it consider replacing him as Chairman (A.3.1). After considering the advantages and disadvantages of this proposal, the Board was pleased to announce the appointment of Bill Huyett as independent Chairman of the Board in September 2018.

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

Our governance structure

Board

CEO → Board

Executive Management → CEO

Audit Committee → Board
Read more on page 76

Clinical Quality and Safety Committee → Board
Read more on page 82

Nomination Committee → Board
Read more on page 85

Remuneration Committee → Board
Read more on page 89

Board of Directors

Members	Length of service	Nationality	Independent
Bill Huyett	1 year	US	Yes
Mike Anderson	3 years	UK	Yes
Fabian Blank	< 1 year	Germany	Yes
Tim Elsigood	3 years	UK	Yes
Nikoloz Gamkrelidze	3 years	Georgia	No
Irakli Gilauri	3 years	Georgia	No
David Morrison	3 years	US	Yes
Ingeborg Oie	3 years	Norway	Yes
Jacques Richier	3 years	France	Yes

The Board is comprised of nine Directors, seven of whom are Independent Non-Executive Directors. Each of the Chairman, CEO and Non-Executive Directors has clearly defined roles within our Board structure. A description of these roles can be found on our website, at: http://ghg.com.ge/roles-and-responsibilities.

To assist the Board in carrying out its functions, the Board has delegated certain responsibilities to its four Committees: the Nomination Committee, the Audit Committee, the Clinical Quality and Safety Committee and the Remuneration Committee.

Terms of Reference and reporting to the Board

Each Board Committee has agreed Terms of Reference, which are approved by each Committee and the Board annually. This year's annual review involved ensuring each of the Committees' terms of reference aligned with the updated principles and provisions laid out in the FRC's 2018 Corporate Governance Code in anticipation of reporting on this Code next year. Full Terms of Reference can be found on our website at: http://ghg.com.ge/terms-of-references.

The Chairman of each Committee reports to the Board on the matters discussed at Committee meetings. Later in this section you will find reports from the Chairman of each Committee which describe the Committee's operation, activities in 2018 and priorities for 2019.

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

The role and operations of the Board

The Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's businesses. We have summarised what we see as the main responsibilities of the Board and how those responsibilities are met.

Setting and oversight of execution of strategy	Oversight of operations	Shareholder and stakeholder engagement	Setting the tone at the top
Among our responsibilities are setting and overseeing the execution of the Group's strategy within a framework of effective risk management and internal controls.	We monitor management's execution of strategy and financial performance. While our ultimate focus is long-term growth, the Group also needs to deliver on short-term objectives and we seek to ensure that management strikes the right balance between the two.	We engage with shareholders actively and regularly to ensure that the Board understands the views of shareholders on some of our most critical decisions. A highlight among our many contacts with shareholders was an investor day in London in October 2018, which provided investors and analysts with the opportunity to receive an update from members of the Board and executive management on strategy. We are also conscious of the need to actively engage with our wider stakeholders, and we detail our stakeholder engagement activity throughout this Report.	By setting the tone at the top, establishing the core values of the Group and demonstrating our leadership, management are able to implement key policies and procedures in a manner that clearly sets an expectation that every employee acts ethically and transparently in all of their dealings. This, in turn, fosters an environment where business and compliance are interlinked.

Directors' Governance Statement continued

The role and operations of the Board continued

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

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

At the Board's in person meetings held each quarter, a typical agenda would cover most of the following topics:

- Financial update (with formal financial results announcements typically being approved in separate phone conferences).
- Operating/performance updates on the business units (hospital, outpatient, pharma retail and distribution, insurance).
- A deeper dive into one or more specific business or strategic issues.
- Regulatory and legislative update, including corporate governance as appropriate.
- Data protection processes and cyber risk mitigations.
- Updates from the Committee meetings, typically including at least an Audit Committee report on accounting issues, internal audit and compliance matters, and a Clinical Quality and Safety Committee review of clinical matters.

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

Stakeholder engagement

The Board is committed to ensuring that the operations of the Company stand to benefit not only its shareholders, but the Group's other key stakeholders, such as our employees, our customers and patients, the environment and our community as a whole. It therefore takes the interests of all of the Company's key stakeholders into consideration in the decision-making process. You can read more about our social and environmental work in the Resources and Responsibilities section on pages 40 to 48, and more details in our shareholder and stakeholder engagement section on who we consider our major stakeholders to be.

One important focus for the Board in 2019 will be to consider how Directors can most effectively factor in stakeholder considerations to the decision making process.

Board and Committee meeting attendance

Details of Board and Committee meeting attendance in 2018 are as follows:

Members	Board	Audit Committee	Nomination Committee	Remuneration Committee	Clinical Quality and Safety Committee
Bill Huyett	10/10 scheduled 2/2 ad hoc	–	4/4	–	4/4
Mike Anderson	10/10 scheduled 3/3 ad hoc	–	4/4	–	4/4
Fabian Blank	3/3 scheduled 1/1 ad hoc	–	1/1	–	1/1
Tim Elsigood	10/10 scheduled 3/3 ad hoc	9/9	4/4	3/3	4/4
Nikoloz Gamkrelidze	10/10 scheduled 2/2 ad hoc	–	–	–	–
Irakli Gilauri	9/10 scheduled 3/3 ad hoc	–	4/4	2/2	–
David Morrison	10/10 scheduled 3/3 ad hoc	9/9	4/4	3/3	–
Ingeborg Oie	10/10 scheduled 3/3 ad hoc	2/2	4/4	3/3	3/3
Jacques Richier	10/10 scheduled 3/3 ad hoc	9/9	4/4	–	–
Advisors to the Board					
Caroline Brown	7/9 scheduled 1/2 ad hoc	6/8	–	–	–
Paul Goldfinch	1/1	1/1	–	–	–

1. Paul Goldfinch stepped down from the Audit Committee in February 2018. Caroline Brown was appointed as a member of the Audit Committee and an advisor to the Board from February 2018 to December 2018.
2. Bill Huyett was appointed Chairman from September 2018. Irakli Gilauri stepped down from the position of Chairman of the Board and also a member of the Remuneration Committee in September 2018 and remained on the Board as a non-executive director.
3. Ingeborg Oie was appointed a member of the Audit Committee from September 2018 and stepped down as a member of the Clinical Quality and Safety Committee in September 2018. Fabian Blank joined the Board as an independent non-executive director in September 2018 and was appointed a member of the Clinical Quality and Safety and Nomination Committees. Tim Elsigood and Bill Huyett were appointed to the Nomination Committee in September 2018.

Board size, composition, tenure and independence

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

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

We believe our overall size and composition to be appropriate, having regard in particular to the independence of character and integrity of all of the Directors. Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Board through their experience and insight from other sectors enabling them to contribute significantly to decision-making. No individual, or group of individuals, is able to dominate the decision-making process and no undue reliance is placed on any individual.

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

Evaluation of Board performance

The Board continually strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal. For 2018, we engaged Lintstock Ltd ("Lintstock"), an external effectiveness evaluation specialist, to conduct a comprehensive review of the Board's composition, expertise, dynamics, management and focus of meetings, support, risk management, oversight, controls and priorities. The evaluation was conducted primarily via a detailed questionnaire, which sought to capture both quantitative and qualitative data on the Board's processes and behaviours, along with the performance of the Committees. The results of the evaluation were discussed at both Board and individual Committee level.

The evaluation highlighted areas in which the Board was operating well and identified areas of focus for the coming year. Overall, it was the view of the Directors that the Board and Board Committees discharge their respective responsibilities effectively, which is supported by good working relationships, both between Directors of the Board and between the Board and management. Non-Executive Directors' insights are always welcomed and challenge continues to be encouraged. The evaluation outcomes were used as one of a number of source to inform the Board's objectives for 2019, which are summarised below.

The below is a summary of some of the key actions coming out of the evaluation:
- Further strengthening succession planning and diversity. This will include close working between the Nomination Committee and HR and considering new ways to ensure the next generation of talent is visible to the Board.
- Ensuring wider Board engagement with organisational culture. A number of Board-level engagement leads will be actively engaging across each business with the development of the Group's organisational culture as it enters its next strategic phase in 2019 and beyond.
- Further improving Board and committee support processes, including improvements to the consistency in quality of Board meeting materials.

In line with best practice, the performance evaluation of the Chairman is undertaken by the Non-Executive Directors led by the Senior Independent Director and taking into account views of executive management and other key stakeholders. The performance evaluation of Mr. Huyett will be undertaken in 2019, given his appointment as Chairman was only made in September 2018. Further, in line with the provisions of the UK Corporate Governance Code, Mr Huyett, as the Chairman, met with the non-executive directors without the CEO present in December 2018. In the first half of 2018, Mr Morrison, as the senior independent director, held a meeting with the non-executive directors without the Chairman.

Objectives for 2019

The Board's objectives for 2019 are set out below. We look forward to reporting in our next Annual Report on the progress made on these areas.

- Driving profit growth and capital efficiency across every business within the Group;
- Focusing on longer-term strategy and development opportunities, including opportunities for innovation and increased digital delivery of our services;
- Working with other stakeholders (see our shareholder and stakeholder engagement section for details on who we consider our major stakeholders to be) to develop the healthcare system in Georgia; and
- Strengthening the processes to identify management talent across the Group.

Succession planning and Board appointments

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

The Board Nomination Committee is responsible for both Director and executive management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. More detail on the role and performance of the Nomination Committee is on pages 85 to 88.

Non-Executive Directors' terms of appointment

On appointment, our Non-Executive Directors are issued with a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25-35 days per year to the role. An additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairmen, as applicable. We are confident that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the Board.

The average tenure of our Non-Executive Directors is less than four years, with the majority having been appointed in August or September 2015, prior to our admission to listing on the London Stock Exchange. The Letters of Appointment for our Non-Executive Directors are available for inspection at our Company's registered office during normal business hours.

Directors' Governance Statement continued

Diversity Policy

We value diversity in all forms in accordance with our Diversity Policy, first adopted in 2015 and last revised in 2018. See page 88 in the Nomination Committee Report for a description of the Group Diversity Policy, its objectives, implementation and results.

External appointments

Prior to accepting any additional external appointments, Directors are required to seek the Board's approval. As a general principle, the Board believe that the other external directorships/positions held provide Directors with valuable expertise which enhances their ability to act as a Non-Executive Director of the Company. Our Non-Executive Directors hold external directorships or other external positions but the Board remains the view of that each director continues to have sufficient time to devote to their duties as a Director of the Company.

Board induction, ongoing training, professional development and independent advice

On appointment, each Director takes part in an induction programme, during which he or she meets members of senior management and receives information about the role of the Board and individual Directors, each Board Committee and the powers delegated to those Committees. He or she is also advised by the Company Secretary and the UK General Counsel of the legal and regulatory obligations of a Director of a company listed in the United Kingdom. Induction sessions are designed to be interactive and are tailored to suit the needs of the individual's previous experience and knowledge.

We are committed to the continuing development of our Directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2018, which included briefings, site visits, development sessions and presentations by our UK General Counsel and Group Company Secretary, members of management, external speakers and our professional advisors. During the year our Group Company Secretary and UK General Counsel provided updates on legislative changes including the Non-Financial Reporting Directive and diversity initiatives, and refresher training on directors duties under the UK Companies Act, in particular s172. The UK General Counsel also updated the Board on recent changes to the UK Corporate Governance Code.

Company Secretary

The Board appointed Link Company Matters Limited to act as Company Secretary to Georgia Healthcare Group PLC in June 2018. Link Company Matters Limited is one of the UK's largest professional services secretarial teams. The Group also has a UK General Counsel.

Information and support

All Directors have access to the advice of the Company Secretary and the UK General Counsel, in appropriate circumstances, may obtain independent professional advice at the Company's expense. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole. The Directors receive presentations from senior management on their particular area of the business.

Re-election of Directors

In line with the Code's recommendations, all Directors seek re-election every year and accordingly, all Directors who wish to continue on the Board will stand for re-election in 2019. The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for re-election as applicable.

Annual General Meeting (AGM)

The Notice of Annual General Meeting is circulated to all shareholders at least 20 working days prior to the AGM. 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 2019 Annual General Meeting will be voted on separately and the voting results will be announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. These will include all votes cast for and against and those withheld, together with all proxies lodged prior to the meeting. As the Company has a controlling shareholder, Georgia Capital plc, as defined in the Financial Conduct Authority's Listing Rules, each resolution to elect an independent Non-Executive Director must be approved by a majority of the votes cast both by shareholders and by independent shareholders.

In the event that 20 per cent or more of votes have been cast against a resolution, an explanation will be provided in the announcement to the London Stock Exchange of the actions the Company will be taking to address shareholder's concerns. A follow up announcement would then be made within six months of the Annual General Meeting regarding feedback received from shareholders and the subsequent actions taken by the Company. See page 71 for further shareholder information and on shareholder engagement.

UK Bribery Act 2010 (the "Bribery Act")

The Board stands firmly against bribery and corruption and is committed to the Group acting in an ethical manner. To support this and in line with the UK legislation the Group has implemented and enforces its Anti-Bribery and Anti-Corruption Policy. The Board attaches the utmost importance to the Policy and its systems. The Company has also introduced a whistleblowing system, including an anonymous helpline, under its Whistleblowing Policy.

Directors' responsibilities

Statements explaining the responsibilities of the Directors for preparing the Annual Report and consolidated and separate Financial Statements can be found on page 108 of this Annual Report. A further statement is provided confirming that the Board considers the that 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.

Accountability

Internal controls and risk management

The Board recognises its responsibility in respect of the Group's risk management process and system of internal control, and oversees the activities of the Group's external auditors (supported by the Audit Committee) and the Group's risk management function (supported by the Audit and Clinical Quality and Safety Committees). Further details on those Committees is available on pages 76 to 84.

A review of the Group's risk management approach is further discussed in the Strategic Report on pages 49 to 52. For detail on the management and mitigation of each principal risk see pages 53 to 59. The Group's viability statement is detailed on pages 52. The Group's governance structure for risk management is illustrated on page 50.

Shareholder and stakeholder engagement

How we engage with our shareholders

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

The Board's primary contact with institutional shareholders is through the Chairman, the Senior Independent Non-Executive Director, the CEO, the Advisor to the CEO, and the Head of Investor Relations, each of whom provides a standing invitation to shareholders to meet and discuss any matters they wish to raise. Our Committee Chairmen also make themselves available to answer questions from investors. The Board has also appointed David Morrison as the Senior Independent Director, whose role includes acting as an intermediary to the Board for shareholders.

We formally communicate with our shareholders via our AGM, Annual Report and Accounts, Half Year Report and Interim Management Statements. These are supported by a combination of presentations and telephone briefings. Over the course of the year, we met with over 200 institutional investors, and participated in more than ten investor conferences and road shows. Throughout the year, our Directors and management met with shareholders in Georgia, the UK, Europe, the US and South Africa.

In October 2018, GHG co-hosted an investor day at the London Stock Exchange, which was open to all investors and analysts. This investor day provided the opportunity for investors to receive an update from the Board and executive management on strategy and performance as well as meet informally with Board members and raise matters of interest. GHG was delighted to host approximately 130 investors and analysts at the investor day, and we have ensured that the views expressed by investors at the day has been fed back to the Board.

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

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

How we engage with our other stakeholders

As a major healthcare provider in Georgia and in the Caucasus region, we also understand the importance of ensuring that we actively engage with, and take into account the views of, our major stakeholders. We detail below who we consider our major stakeholders to be and how we take into account, and respond to, those stakeholders.

Stakeholders	Our engagement
Our patients	In 2018 a number of Non-Executive Directors visited polyclinics and hospitals, including visiting Tbilisi Referral Hospital prior to the formal opening, and meeting with patients in Tbilisi Referral Hospital to gain further insight into the range of services offered and understand the patient experience. Non-Executive Directors also visited pharmacies and the Laparoscopy Surgery Centre. We detail our engagement with clinicians further in our Clinical Quality and Safety Committee Report.
Employees	We detail in our Resources and Responsibilities section our engagement with employees, which includes: • Half yearly and annual performance reviews; • Employee engagement surveys; • Town Hall sessions with senior management; and • 'Meet the Board' sessions.
Government	Regular liaison with Government departments, including Ministerial liaison.
Local communities	As we detail in our Resources and Responsibilities section, we have a range of initiatives including volunteer days for employees, support of relevant charities through selective partnerships and the regular review of additional ways we can provide support to the wider community and relevant charitable organisations.
Third-party suppliers	Regular meetings and review within key contacts within those suppliers and their senior management teams.

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

The Board


1. Bill Huyett


2. Nick Gamkrelidze


3. Irakli Gilauri


4. David Morrison


5. Fabian Blank

1. Bill Huyett

Independent Non-Executive Chairman

Bill Huyett was appointed as a Non-Executive Director Chairman on 20 September 2018, having served as an Independent Non-Executive Director since 18 June 2017 and having been elected by shareholders at the 2018 AGM. He serves as a member of the Clinical Quality and Safety Committee and the Nomination Committee. He also Chairman of the Supervisory Board of JSC GHG and of its Clinical Quality and Safety Committee.

Skills and Experience: Mr Huyett is the Chief Financial Officer of Cyclerion Therapeutics, recently spun out from Ironwood Pharmaceuticals, where he was Chief Operating Officer. Prior to that, during a 30-year career at McKinsey & Company in the US and Europe, he served clients in health care and other technology-intensive industries. He advised those clients on value creation strategies and their implications for organisation effectiveness and board governance. His areas of expertise include corporate portfolios, growth, M&A and divestitures. He is co¬author of a text on corporate finance: Value: Four Cornerstones of Value Creation. He currently serves on the boards of two not-for-profit institutions, Rockefeller University in New York and Marine Biological Laboratory Woods Hole. He is also a non-executive director of Georgia Capital PLC.

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

2. Nick Gamkrelidze

Chief Executive Officer

Nikoloz Gamkrelidze was appointed as Chief Executive Officer on 28 August 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 and 2018 AGMs. He also serves as CEO to JSC GHG and JSC Evex, Deputy Chairman of the Supervisory Board of JSC Evex, and Chairman of the Supervisory Boards of JSC Imedi L and JSC GEPHA.

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

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

3. Irakli Gilauri

Non-Executive Director

Irakli Gilauri joined the Board, initially as Chairman, on 4 September 2015 and was elected as a Non-Executive Director by shareholders at the 2016 AGM and re-elected by shareholders at the 2017 and 2018 AGMs. He resigned as Chairman in September 2018 and remains on the Board as a Non-Executive Director. He is a member of the Nomination Committee. Mr Gilauri is also a member of the Supervisory Board of JSC GHG and serves as Chairman of the Supervisory Board of JSC Evex.

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

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

4. David Morrison

Senior Independent Non-Executive Director

David Morrison was appointed as the Senior Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and was re-elected by shareholders at the 2017 and 2018 AGMs. He also serves as Chairman of the Audit Committee and as a member of the Nomination Committee and the Remuneration Committee. Mr Morrison serves as a member of the Supervisory Board of JSC GHG and of its Audit and Remuneration Committees.

Skills and experience: Mr Morrison previously served as the Senior Independent Non-Executive Director of BGEO Group PLC from October 2011 until May 2018, which included positions of Chairman of Audit Committee and a member of Remuneration and Nomination Committees. Mr Morrison is a Non-Executive Director of Georgia Capital PLC. Mr Morrison spent most of his career (28 years) at Sullivan & Cromwell LLP where served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, including capital raisings, IPOs and mergers and acquisitions. Mr Morrison is the author of several publications on securities law-related topics and was recognised as a leading lawyer in Germany and France. In 2008, Mr Morrison turned his attention to conservation finance as the Founding CEO of the Caucasus Nature Fund (CNF), a charitable trust dedicated to wilderness protection in Georgia, Armenia and Azerbaijan. He now acts as Chair of CNF's supervisory board and serves as well as on the boards of two other conservation trusts he helped to create in 2015 and 2016. Mr Morrison received his undergraduate degree from Yale College and his law degree from the University of California, Los Angeles. He was also a Fulbright scholar at the University of Frankfurt.

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

5. Fabian Blank

Independent Non-Executive Director

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

Skills and Experience: Mr. Blank is an entrepreneur, investor and senior management advisor in healthcare. He has operational leadership experience in healthcare services, and a strong background in digital health and technology. Mr. Blank is an early stage investor and founder in digital health, actively involved in a portfolio of patient-centric start-ups. As an independent senior management and board-level advisor, he works with healthcare providers and payers, medical technology companies and private equity firms looking at growth opportunities in healthcare including digital transformation, innovation/disruption and M&A. Previously, Mr. Blank was co-owner and CEO of a mid-sized rehab clinic group focused on post-acute treatment in orthopaedics and cardiology. He grew utilisation, revenues, and EBITDA in a mature, highly competitive market before exiting the firm to a private equity group. He started his career at McKinsey & Company throughout his 13 years and as a Partner at McKinsey, he focused on growth topics and consumer centric functions in mobile telecoms and healthcare services. He spent the majority of his time in high growth markets, working in more than 20 countries across Eastern Europe, Sub Saharan Africa, India and South East Asia.

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


6. Mike Anderson


7. Tim Elsigood


8. Ingeborg Oie


9. Jacques Richier


10. Rebecca Wooldridge

6. Mike Anderson

Independent Non-Executive Director

Mike Anderson was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 and 2018 AGMs. He serves as Chairman of the Clinical Quality and Safety Committee and as a member of the Nomination Committee. Dr Anderson also serves as a member of the Supervisory Board of JSC GHG and of its Clinical Quality and Safety 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 1996. He served as the Medical Director at Chelsea and Westminster Hospital from 2003 to 2015, as well as continuing in his role as a physician. Dr Anderson was one of the Medical Directors for the North West London reconfiguration programme (Shaping a Healthier Future) and continues as a physician at Chelsea and Westminster Hospital and in private medical practice. Dr Anderson has also worked as a clinical advisor and has been chairman of hospital inspections for the Care Quality Commission. Dr Anderson is an honorary clinical senior lecturer at Imperial College of Science, Technology and Medicine and a member of the British Society of Gastroenterology and the British Association for the Study of the Liver.

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

7. Tim Elsigood

Independent Non-Executive Director

Tim Elsigood was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 and 2018 AGMs. He serves as Chairman of the Remuneration Committee and as a member of the Audit Committee, the Clinical Quality and Safety Committee and the Nomination Committee. Mr Elsigood also serves as a member of the Supervisory Board of JSC GHG and of its Remuneration, Audit and Clinical Quality and Safety Committees.

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

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

8. Ingeborg Oie

Independent Non-Executive Director

Ingeborg Oie was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 and 2018 AGMs. She serves as Chairman of the Nomination Committee and is a member of both the Remuneration Committee and the Audit Committee. Ms Oie is also a member of the Supervisory Board of JSC GHG and of its Audit and Remuneration Committees.

Skills and experience: Ms Oie is Chief Financial Officer of CMR Surgical, a private medical technology company based in Cambridge, UK which is developing a next-generation robot for minimal access surgery. Previously Ms Oie held various roles 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 holds an MSc in Public Health from London School of Hygiene and Tropical Medicine. She is a CFA charter holder and is CIMA exams complete.

9. Jacques Richier

Independent Non-Executive Director

Jacques Richier was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 and 2018 AGMs. He serves as a member of both the Audit Committee and the Nomination Committee. Mr Richier also serves as a member of the Supervisory Board of JSC GHG and of its Audit and Nomination Committees.

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.

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

10. Rebecca Wooldridge

UK General Counsel

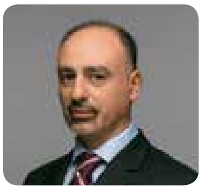
Rebecca Wooldridge was appointed as UK General Counsel for the group in June 2018 having previously held the position of Group Company Secretary of Georgia Healthcare Group PLC. Ms Wooldridge is also the UK General Counsel for Georgia Capital PLC and Bank of Georgia Group PLC; and was Deputy Company Secretary and then Group Company Secretary of Georgia Healthcare Group PLC from November 2016 to June 2018. She is a solicitor of England & Wales specialising in corporate governance. Before joining the group she was Principal Counsel for a FTSE 100 top 20 company, BG Group PLC, where she held a progression of legal roles (2008-2016), including serving on the Reserves Committee. Before joining BG Group, Ms Wooldridge was a corporate lawyer for leading City firm Allen & Overy LLP (2003-2008). Ms Wooldridge has a Master's Degree in English from St John's College, Cambridge University and a Post Graduate Diploma in Law and a Diploma in Legal Practice from Nottingham Law School.

Link Company Matters acts as Company Secretary to Georgia Healthcare Group PLC and reports to the UK General Counsel. Link Company Matters are one of the UK's largest professional services secretarial teams, providing a comprehensive outsourced service including global statutory compliance and meeting support. With offices in the UK and mainland Europe, Link Company Matters support both domestic and international clients, including a wide range of AIM-quoted and Main Market companies, with all aspects of their company secretarial and governance needs.

Senior Managers


1. Irakli Gogia


2. David Vakhtangishvili


3. Gregory Khurtsidze


4. Enrico Beridze


5. Nino Kortua


6. Medea Chkhaidze


7. Nino Chichua

1. Irakli Gogia

Deputy CEO – Finance and Operations

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

2. David Vakhtangishvili

Deputy CEO – Risks & IT

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

3. Gregory ("Gia") Khurtsidze

Deputy CEO – Clinical

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

4. Enrico Beridze

Head of Business Development and Strategic Marketing

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

5. Nino Kortua

Chief Legal Officer

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

6. Medea Chkhaidze

Chief HR Officer

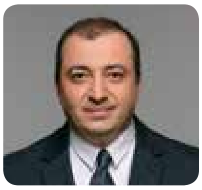
Medea Chkhaidze was appointed Chief HR Officer on 29 April 2015. Prior to this role, Mrs Chkhaidze was Head of HR at Insurance Company Aldagi from 2009 to 2015 and before this, she was an independent HR consultant in the insurance field. From 2007 to 2008, Mrs Chkhaidze worked at Standard Bank as the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

7. Nino Chichua

Chief Quality Officer

Nino Chichua serves as Chief Quality Officer since January 2019. Prior to this role, Mrs Chuchua was Chief Marketing and Communications Officer since 29 April 2015. Prior to joining Georgia Healthcare Group Ms Chichua served as CEO at LEPL Public Service Hall. Prior to her appointment as CEO, she served as head of Marketing Department at the Ministry of Justice of Georgia. Ms Chichua also held various managerial positions at People's Bank, TBC Bank and Insurance Company Aldagi. Nino Chichua is the author of a number of publications. Furthermore, she cooperates with various universities and runs academic activities. Ms Chichua holds an MBA from Tbilisi European School of Management and an EM degree in Marketing & Sales from ESADE Business School, Spain and SDA Bocconi School of Management, Italy.

8. Giorgi Mindiashvili



9. Giorgi Gordadze

10. Mikheil Abramidze

11. Givi Giorgadze

12. Mikheil Dolidze

13. Manana Khurtsilava

8. Giorgi Mindiashvili

Chief Operating Officer, Hospitals

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

9. Giorgi Gordadze

Chief Operating Officer, Clinics

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

10. Mikheil Abramidze

Chief Operating Officer, Pharmacy and Distribution

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

11. Givi Giorgadze

Chief Operating Officer, Medical Insurance

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

12. Mikheil Dolidze

Chief Operating Officer, Diagnostics

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

13. Manana Khurtsilava

Head of Internal Audit

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

Audit Committee Report

David Morrison
Chairman of the Audit Committee

Chairman's Overview

Dear shareholders,

For the financial year 2018, our Committee has:

- overseen the embedding of the new risk management framework and reviewed reports from the Chief Risk Officer;
- reviewed significant accounting policies and areas of significant judgement and any material assumptions, including a review of the implementation of new International Financial Reporting Standards (IFRS 9 and IFRS 16);
- conducted an effectiveness evaluation of the External Audit Process;
- conducted the tender process for the provision of External Audit services;
- reviewed EY's External Audit plan for 2019 following the tender process;
- reviewed the Internal Audit plan and the outcomes of internal audits;
- reviewed the Company's whistleblowing and anti-bribery and anti-corruption arrangements;
- reviewed the 2018 Annual Report and Accounts, including confirming that they were fair, balanced and understandable;
- reviewed the half year results and the quarterly results; and
- reviewed the viability and going concern statements;

I wish to record the Committee's gratitude to Dr Caroline Brown for the work she undertook for the Committee and the Company more widely throughout 2018. Caroline's role as an Advisor to the Board, and as a member of the Committee, came to an end in December 2018 and we are very grateful to her for her valuable contribution to the work of the Committee.

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

David Morrison
Chairman of the Audit Committee
2 April 2019

Key responsibilities

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

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

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

Composition and operations of the Audit Committee

The composition of the Committee complies with the 2016 UK Corporate Governance Code, which provides that the Committee should comprise at least two Independent Non-Executive Directors. The Board appoints the Chair of the Committee, who must be an independent Non-Executive Director.

The Audit Committee members and their meeting attendance for the year 2018 is set out in the Board and Committee meeting attendance section on page 68.

The Board is satisfied that all members of the Audit Committee have recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to the sector in which the Company operates. As we reported in the 2017 Annual Report, the Board appointed Dr Caroline Brown to serve as an advisor to the Board and as a member of the Audit Committee effective as of 24 February 2018, succeeding Paul Goldfinch, who stepped down from the Committee at that time. Dr Caroline Brown is a Fellow of the Chartered Institute of Management Accountants and, like her predecessor Mr. Goldfinch, has deep experience of accountancy and audit.

Over 2018, the Committee has discussed how to take forward feedback from shareholders at the most recent Annual General Meeting in respect of the Committee's composition, suggesting that the advisor role of Dr Brown was not a permanent solution. With that in mind, and changes to the UK Corporate Governance Code relating to the makeup of the Audit Committee, members recommended to the Board that the Committee terms of reference be amended with effect from 1 January 2019 to provide that the Committee be comprised solely of independent non-executive Directors.

Further, Ingeborg Oie was appointed to the Committee in September 2018 and Dr Brown's appointment concluded on 31 December 2018. Ms Oie brings additional recent and relevant financial experience to the Committee, including as a country Chief Financial Officer of a FTSE 100 company, a CFA charter holder and is CIMA exams complete. The biographies of the Audit Committee members are set out on pages 72 and 73.

The Audit Committee works to a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it considers regularly under its Terms of Reference. The latest review took account of the 2018 UK Corporate Governance Code. It also reacts to relevant business developments as and when they occur. Our meetings are regularly attended by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, the Head of Internal Audit and other members of senior management. The formal meetings are also attended by representatives of the Company's external auditor, Ernst & Young LLP ("EY").

During the year, we also regularly held separate private meetings with the Head of Internal Audit and the external auditor. The sessions with the external auditor, which are not attended by management, allow us to discuss any issues of concern in more detail directly with the Audit Teams. From time to time, other members of management are invited to attend meetings in order to provide a deeper level of insight into any key issues and developments.

Meetings of the Audit Committee take place prior to the Board meeting in order for the Audit Committee to report its activities and matters of particular relevance to the Board. Mr Morrison attends the AGM to respond to any shareholder questions that may be raised on the Audit Committee's activities.

Continuing education and training

The whole Board also received training on the new UK Corporate Governance Code 2018 and associated guidance, and the proposed changes to the previous version, affecting the Audit Committee.

Audit Committee activities in 2018

Financial reporting

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

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

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

The significant risks, financial judgements and accounting issues considered by the Audit Committee in relation to the Financial Statements are addressed below.

Matter considered	Action taken
Revenue recognition	Engagement with EY; assurances from management; focus management compensation on long-vesting shares
Valuation of properties	Assure regular engagement of independent valuer; engage with EY; reports from management
Goodwill impairment	Engagement with EY and reports from management
Provision for ongoing litigation	Engagement with EY and reports from management
Adoption of IFRS 9 and IFRS 16	Engagement with EY; reports from management; modelling of impact of adoption of standards

Risk management and internal control systems

The Audit Committee recognises that a strong and effective system of risk management and internal control plays a crucial role in a good system of corporate governance. The Committee derives assurance on the adequacy of its risk management and internal control systems from the following internal and external sources:

1. Risk management systems;
2. Internal Audit; and
3. External Audit.

Although the Board assumes the ultimate responsibility for the Group's risk management and internal control framework, its work is supported by the work of both the Audit Committee and the Clinical Quality and Safety Committee. As described earlier in this Report, this includes reports from and regular discussions with the Group executives with whom the Committee members regularly meet.

1. Risk management systems

In relation to risk management and internal financial control, the Committee assists the Board in fulfilling its responsibilities for ensuring there are adequate and effective controls in place within the Group's financial reporting lines and within its operations.

As we reported in last year's Annual Report, the Group established a centralised risk department in 2017, which reports to both the Executive Risk Committee and to the Audit Committee; and Clinical Quality and Safety Committees. The decision to centralise the risk function was taken with a view to ensuring a cohesive and coherent approach in the way that due diligence activities are undertaken across the Group's clinics and head office, and the way in which risk management policies are implemented across the Group.

Audit Committee Report continued

Risk management and internal control systems continued

1. Risk management systems continued

The Committee is pleased to report that, over 2018, this revised approach toward risk management continues to be embedded across the Group. The risk team has given great focus on toward proactively assisting management in mitigating risks that had been identified. As a consequence, risk mitigation activities are being agreed and acted upon by management ever more promptly, and the understanding across the Group of business risk and risk management activity, at all levels of the business, is growing. This in turn is impacting positively upon the quality of risk reporting, both to management and to the Committee, which continues to improve.

The Committee continues to consider risk at both the strategic and business level, and these considerations inform the assessment of the Group's principal risks and uncertainties, as included elsewhere in this Annual Report. During 2018, the Committee has reviewed a number of strategic, operational and reputational risks, including those related to cyber risk and information security, internal or external fraud or misconduct, as well as undertaking a wider review of strategic, political, business, and environmental and social risks. For more details on the risks facing the business, please see the Principal Risks and Uncertainties section (pages 53 to 59) in this report.

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

2. Internal Audit

The Internal Audit function has continued to evolve throughout 2018. Internal audit covers financial, operational and clinical matters identified as key risk areas by the CEO, the CFO, the Head of Clinical Operations and the Head of Risk. Those matters are then presented to and agreed with the Audit and Clinical Quality and Safety Committees so that the focus of internal audit activity is on those issues that are most likely to materially impact on the delivery of the Group's strategy, thereby ensuring a direct link between the work of the internal audit team and the Group's strategic objectives.

The Internal Audit department serves as the Group's independent assurance over the adequacy and effectiveness of the corporate and business risk management processes and systems of internal control in place across the Group. The Audit Committee monitors the scope, extent and effectiveness of the Group's Non-Clinical Audit function. The Committee reviews and approves the Non-Clinical Internal Audit Policy and oversees delivery against the Non-Clinical Internal Audit Plan, which is designed using a risk-based approach aligned to the Group's wider strategic priorities. Internal audits of clinical processes are reported directly to the Clinical Quality and Safety Committee and are reported upon further in the report of that Committee.

Throughout the year, the Committee received regular reports from the Non-Clinical Internal Audit department on its audit activities and significant findings on a range of business-specific areas, including on accounts receivable management processes across the Group, complaints handling processes and a number of follow-up audits to monitor progress on previously identified issues.

The Committee is confident that the audit processes in place are effective in identifying control weaknesses and corrective measures. While pleased with the progress that is being made by the Internal Audit team in identifying areas for improvement, and in the ways in which team is getting buy-in from across the business, the Committee will continue to challenge both the Internal Audit function and management more widely to assure focus on the most important issues and improve the speed with which identified deficiencies are acted upon.

We also considered the quality of reporting by the Internal Audit function to the Audit Committee. On this basis, the Committee continues to conclude that the Internal Audit function is effective and respected by management and conforms to the standards set by the Institute of Internal Auditors.

The Committee is pleased to report that during 2018 and up to the date of this Annual Report, our Internal Audit team did not find any significant weaknesses in our risk management processes or internal controls.

The Chief Risk Officer and Head of Internal Audit have direct access to the Audit Committee and the opportunity to discuss matters with the Audit Committee without other members of management present. We also monitor the staffing of the Non-Clinical Internal Audit function as well as the relevant qualifications and experience of the team.

3. External audit

With respect to our responsibilities for the external audit process on behalf of the Board, we:

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

Audit tender and lead audit partner rotation

EY were appointed as our Group statutory auditors in 2015 ahead of our listing on the London Stock Exchange, following a competitive tender process. EY appointed Richard Addison as our lead partner in 2018. The external auditor is required to rotate the audit partner responsible for the Group at least every five years. Following a successful tender for the provision of external audit services this year (as detailed below), the Group will be required to put the external audit contract out to tender no later than 2028. The Company Secretary announced the results of the tender on 12 November 2018.

EY was re-appointed by shareholders at the 2018 AGM, and the Board was authorised to set the remuneration of the auditor, by 100% votes in favour for each resolution.

External audit tender process

We undertook a formal tender process for statutory audit services in 2018 for the financial years 2019 to 2021. The process is set out below:

Requests for proposals

The RFP had outlined the objectives for the tender process, which were:

1) To secure high, quality external audit services from a provider with high standards of professional service.
2) To secure excellent value for money.

→

Evaluation and assessment

Presentations given to Audit Committee in October 2018, who assessed against the following criteria:

1) Capability and Competence.
2) Audit Quality and Service Quality.
3) Behaviour and Deliverables.
4) Pricing.
5) Other specific topics.

→

Decision

Recommendation from the Audit Committee to the Board to re-appoint EY as the Company's external audit providers.

Request for Proposal ("RFP"(s))

Requests for Proposals/Invitations to Tender were sent in the third quarter of 2018, including to firms outside of the "big four" audit companies. The invited firms were selected on the basis that they were most likely to fulfil the criteria in particular for capability, competence and audit quality across their UK and Georgian teams. Locally based expertise in Georgia was particularly important given the Company's business is predominantly in Georgia. The RFP explained that the tender was for the periods stated above and that the auditor would also be subject to re-appointment at the Company's Annual General Meetings.

The RFP outlined that Georgia Healthcare Group's objectives for the tender process were to:

- Secure high-quality external audit services;
- Appoint a firm who will provide high standards of professional service; and
- Appoint a firm who will provide excellent value for money.

To ensure all participating firms had equal and sufficient information to understand the Group's business, the RFP provided general information about the business, timeline and description of tender process, outline of evaluation criteria, scope of work and tender response format.
The RFP contained detailed information on the required contents of their Proposals from the firms. We received responses from four companies who confirmed their willingness to participate in the tender process, confirmed their independence and signed non-disclosure agreements.

Tender process

All firms provided a proposal and were invited to present to the Committee in October 2018. All Audit Committee members attended all presentations alongside the CFO and IFRS Advisory Manager. Attendees from the firms were a combination of their UK and Georgian based teams, and each were given sixty minutes to present, including time for discussion with the Committee.

The RFP had set out the criteria that the Committee used in making a recommendation to the Board on auditor appointment. These were broken down as follows, with each section given equal weighting:

- Capability and Competence;
- Audit Quality and Service Quality;
- Behaviour and Deliverables; and
- Pricing.

A summary of proposal was prepared for each firm and circulated to the Committee members along with the full proposals. The Committee discussed the strengths and weaknesses for each firm. Based on this process, the Committee determined that EY had the highest capability, competence and quality for the role. The Committee recommended two firms to the Board for it to consider for the provision of external audit and audit-related services for the three years (2019, 2020 and 2021) indicating a preference for EY. This recommendation was accepted by the Board and separate resolutions proposing EY's re-appointment and determination of EY's remuneration by the Committee will be proposed at the 2019 AGM. We announced the outcomes for the tender process upon completion to the London Stock Exchange.

In making this recommendation, the Committee confirmed in accordance with clause 489(5) of the Companies Act 2006 that (i) they were free from the influence of a third party and (ii) there was no contractual term of the kind mentioned in Article 16(6) of the Audit Regulation (Regulation (EU) No 537/2014 restricting the choice by the general meeting of shareholders as regards the appointment of a particular statutory auditor or audit firm.

Audit Committee Report continued

External Audit tender process continued

Auditor independence

The Audit Committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, helping to ensure that the external auditor maintains the necessary degree of independence and objectivity. Our policy on the provision of non-audit services by our external auditors aligns with the current EU Statutory Audit regime and recent amendments to the UK Corporate Governance Code. Any work other than for audit or review of interim statements to be undertaken by the external auditor now requires authorisation by the Audit Committee except in very narrow circumstances. The Group's Policy on Non-Audit Services was revised and approved in 2018 and can be found on our website at: http://ghg.com.ge/uploads/files/nonaudit-services-policy-6.pdf. The Committee has undertaken a formal assessment of EY's independence, which included a review of: a report from EY describing their arrangements to identify, report and manage any conflicts of interest, and their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and the value of non-audit services provided by EY.

EY have confirmed that they believe they remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards. As indicated in Note 32 of the audited IFRS Financial Statements for 2018, the total fees paid to EY for the year ended 31 December 2018 were GEL 1.3 million of which GEL 0.4 million related to the Group's 2018 half year interim accounts review. None of these fees related to work other than the audit or review of the interim accounts.

Effectiveness of the External Audit process

We have an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the auditor and the process they have adopted to identify Financial Statement risks and key areas of audit focus;
- regular communications between the external auditor and both the Committee and management, including discussion of regular reports prepared by EY;
- regular discussions with EY (without management present) and management (without EY present) in order to discuss the external audit process;
- a review of the final audit report, noting the conclusions reached by the auditors and the reasoning behind such conclusions;
- a review of EY's 2018 Transparency Report and the annual FRC Audit Quality Inspection Report of EY; and
- a formal questionnaire issued to all Committee members and also to the executive management of the Group leading the audit, which includes the quality of the audit and Audit Team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the Audit Team's communication with the Committee and management, and the auditor's independence and objectivity.

We are confident that the evaluation process is effective, allowing for an objective assessment against the principal focus areas. After carefully considering the outcome of the above review, we concluded, in conjunction with management, and reported to the Board that in our opinion:

- the audit team was sound and reliable, and that the quality of the audit service provided was of a high standard;
- EY continued to remain independent and objective;
- EY was effectively able to challenge management when required; and
- that productive discussions were held with the Committee throughout the audit planning, execution and year-end processes.

The Committee has recommended to the Board that EY be re-appointed under a new External Audit contract and the Directors will be proposing the re-appointment and the determination of EY's remuneration at the 2019 AGM.

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

The Committee also monitors regularly the Group's compliance with the corporate governance policies and procedures in relation to anti-bribery and anti-corruption, conflicts of interest and whistleblowing. During 2018, the Committee approved updates to the Company's Whistleblowing Policy and Anti-Bribery and Anti-Corruption Policy to be in line with both recommendations under the revised UK Corporate Governance Code and in line with general good practice.

The Audit Committee ensures that there are effective procedures relating to whistleblowing. The Company has adopted a Whistleblowing Policy which allows staff to confidentially raise any concerns about business practices through an independent whistleblowing hotline. Having updated the Company's Whistleblowing Policy during 2018, we are confident that the whistleblowing arrangements remain effective and proportionate, and that there is an appropriate mechanism for follow-up actions to be identified from any concerns raised through the Whistleblowing Policy and acted upon. We are particularly pleased with the work by management in 2018 to raise awareness of the Policy across the Group, including awareness of the ways in which the Policy should be used and the protections available to individuals raising concerns under the Policy.

From 1 January 2019, responsibility for the Company's whistleblowing arrangements, including overseeing how the Policy is implemented, will sit at Board level, in accordance with both the importance that the Board attaches to robust whistleblowing arrangements and developing good corporate governance practice. For further details of our whistleblowing arrangements, please see the Resources and Responsibilities section of this report.

We have also developed a Conflicts Authorisation Policy through which we assess actual and potential conflicts of interest and assist the Board in its review of the permissibility of such conflicts. The Audit Committee also keeps under review the Group's Anti-Bribery and Anti-Corruption Policy and procedures and receives reports from management on a regular basis in relation to any actual or potential wrongdoing.

Viability statement
In accordance with the Code, the Directors are required to assess the viability of the Group.

The Committee's opinion continues to be that a period of three years is appropriate to assess the Group's viability given the nature of the business and the regulatory investment and planning cycles.

We have also had careful regard over the year to changes to:
- the Group's principal risks and uncertainties, including those that will threaten our business model, future performance and solvency or liquidity, and the way in which those risks and uncertainties are managed;
- the current financial and operational position of the Group, including future cash flows and capital allocation, allocated capital expenditure and funding requirements; and
- downside stress-testing.

We discussed our analysis with management and the full Board. The Group's 2018 viability statement can be found on page 52.

Fair, balanced and understandable reporting
At the request of the Board, we reviewed the 2018 Annual Report to consider whether it provided a true and fair view of the Group's affairs at the end of the year and provided shareholders with the necessary information in a fair, balanced and understandable way in order to enable them to assess the Group's performance, business model and strategy.

We did this by satisfying ourselves that there was a robust process of review and challenge at different levels within the Group to ensure balance and consistency. We reviewed several drafts of the 2018 Annual Report and directly reviewed the overall messages and tone of the Annual Report with the CEO and CFO. We also considered other information regarding the Group's performance and business presented to the Board during the period, both from management and the external auditor. After consideration of all of this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness review
An externally facilitated review of the Committee was performed over the year. Further information on the review methodology can be found in the Corporate Governance Report on page 69.

The evaluation principally addressed the composition of the Committee, the review and testing of the work of the internal and external auditors, the quality of financial reporting, the assessment of internal controls and risk management within the scope of the Committee's responsibilities, and the division of responsibilities between the Committee and the Clinical Quality and Safety Committee.

The effectiveness evaluation concluded that the Committee operates and performs effectively. On the basis of the evaluation, the Committee has committed to considering ways of working more closely with the Clinical Quality and Safety Committee over the course of 2019. Such an approach will allow a holistic look at some of the strategic themes arising from both clinical and non-clinical audits, including business culture and the timeliness and effectiveness of measures to manage risks identified from the internal audit process.

Looking ahead to 2019
Based on the results of the evaluation and further internal discussion, our priorities for 2019 include:
- assuring continued integrity and balance in the Group's financial reporting, with a particular focus on cash flow reporting;
- improved coordination of work with Clinical Quality and Safety Committee on overlapping areas of operational, clinical and financial risk;
- working with management and internal audit to ensure continued focus on the most material matters, including continued improvement in the effectiveness and coverage of internal controls;
- evaluating the effectiveness of the internal audit function, including the efficacy of internal audit recommendations to management; and
- assuring that the external auditors deliver on the service levels and responsiveness agreed during the audit tender process.

Clinical Quality and Safety Committee Report

Mike Anderson
Chairman of the Clinical Quality and Safety Committee

Chairman's Overview

I am delighted to present my report for 2018.

I see the role of the Committee as being centred on ensuring that as the Group grows, the care provided to those in our facilities is of a consistently high level and that the Group continues to deliver on improvements in clinical quality and safety in each of its facilities. We aim to ensure these high standards are delivered consistently irrespective of where in the country our patients are receiving care.

I am pleased to report that we have made significant progress this year, particularly in terms of the quality of clinical data available to us as a Committee. This provides an excellent benchmark for us to understand where we are working well and the reasons why we work well, and to gain insight into further improvements that are required.

Although we are pleased to see the progress in clinical care and quality this year, we are not complacent. We see, for example, that many of our facilities are delivering outstanding levels of care to patients but we need to continue to build on this. There remains more for us to do to deliver the consistency in standards of care that we challenge ourselves as a Group to provide.

The opening of the Mega Laboratory in December 2018 is an important step in improving our clinical and pathology testing and represents a new benchmark in both Georgia and the wider Caucasus region. The launch is in line with the Group's wider strategy to invest in and develop new medical services to keep filling existing service gaps in the country, supporting the market's continuing development and our services export strategy.

I reported in last year's Annual Report that, alongside the Group's Audit Committee, the Committee would continue to focus in 2018 on ensuring that the Group's clinical risk management framework, which is vital for our business and the safety and wellbeing of our patients, continued to be embedded across the Group. The Committee has continued to receive reports at each meeting on the progress made by management in rolling out the framework and we are very pleased to see the levels of engagement with the framework shown by our clinical managers across all our facilities; we have made visible progress in this area and a focus for the Committee in 2019 will be to ensure that we continue to build on this progress.

I would like to take this opportunity to thank both management and clinicians for the service they continue to provide to the Group and to our patients. As a Committee, we have made a point to visit a number of the Group's facilities across Georgia throughout 2018 and we continue to be deeply impressed by the dedication and tirelessness of all staff.

In September 2018, Fabian Blank joined the Board and was appointed to the Committee and replaced Ingeborg Oie following her appointment to the Audit Committee. I would like to thank Ingeborg for her valuable contribution to the Committee. In December 2018 the Committee reviewed its terms of reference to ensuring that the Committee is best placed to continue to drive continued improvements in clinical quality and safety.

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

Mike Anderson
Chairman of the Clinical Quality and Safety Committee
2 April 2019

Key Responsibilities

The Clinical Quality and Safety Committee supports the Board in overseeing the Group's non-financial risks and their associated risk management framework including the related governance, internal control systems and assurance. The Committee's work aims to promote a culture where quality and safe patient care are at the centre of management's actions.

The key responsibilities of the Clinical Quality and Safety 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;
- 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;
- scrutinise the adequacy, effectiveness and quality of the Group's clinical services, governance, audit and risk management processes and policies (including in relation to infection control) to ensure the delivery of safe high-quality clinical services to patients;
- monitor unexpected deaths occurring in hospital sites, ensuring that root causes, action plans are adequate, and reporting on such monitoring activities to the Board;
- review evidence of compliance with statutory notification requirements, as well as responses to statutory notices issued by competent authorities, and report these to the Board;
- review evidence of compliance with regulation and best practice and the Company's policies and procedures in respect of clinical care and quality, and reporting this to the Board;

- review themes and trends in relation to claims and complaints, and patient experience and feedback, relating to the Group's clinical practices;
- review the Group's information governance policy and processes and any breaches thereof, particularly in relation to Patient Identifiable Data;
- review the themes, trends and management response to external regulatory visits and inspections and to the Group's relationship with the regulators generally;
- review the Company's clinical risk management and internal control procedures on an annual basis;
- review the Group's health and safety performance;
- scrutinise the adequacy, effectiveness and quality of the Company's health and safety policy and procedures to ensure a safe environment for those at the Group's facilities; and
- help management to respond appropriately on health and safety matters by identifying themes and trends in health and safety management reports.

In discharging its duties, the Committee engages with and receives regular reports from the Head of the Clinical Department and supervises the clinical quality aspects of internal audit.

The risk categories overseen by the Clinical Quality and Safety Committee include medical and clinical record-keeping and similar statutory compliance, and health and safety. The Audit Committee oversees financial-related risks, IT, cyber security and compliance, with the two Committees overseeing similar areas of operational risks.

The responsibilities and functioning of the Committee are governed by Terms of Reference approved by the Board. These were reviewed by the Committee and the Board in December 2018. The Clinical Quality and Safety Committee's updated Terms of Reference are available from the Group's website: http://ghg.com.ge/uploads/files/clinical-quality-and-safety-committee-9.pdf.

Composition and operations of the Clinical Quality and Safety Committee

The Clinical Quality and Safety Committee is required under its Terms of Reference to have at least four members, at least two of whom must be Independent Non-Executive Directors. The Board appoints the Chair of the Committee who must be an independent Non-Executive Director. The biographies of the members of the Clinical Quality and Safety Committee are set out on pages 72 and 73.

The composition of the Committee and the members' meeting attendance for the year 2018 is set out on page 68.

Our meetings are regularly attended by members of the Company's Senior Management Team, including the Chief Executive Officer, the Head of the Clinical Department as well as members of the internal and clinical audit teams. The Committee also benefits from meetings with various senior members of staff from across the Group and this engagement affords the Committee with a better understanding of how quality and safety are embedded across the Group. In addition, non-Committee Board members are also invited to attend.

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

Meetings of the Clinical Quality and Safety Committee take place prior to the Board meetings in order for the Committee to report its activities and matters of particular relevance to the Board. During 2018, Committee members visited a number of the Group's facilities, including meetings with:

- hospital management and senior clinicians at Bokeria Referral Hospital;
- Polyclinic heads at a number of Evex polyclinics;
- the lead pathologist at Mega Lab;
- team leaders and specialists at Regional Hospital; and
- management at GEPHA pharmacies.

Members of the Committee met with management and doctors to discuss clinical quality and safety procedures prior to the formal opening of the facilities. They also visited patients in a range of our facilities to gain further insight into the range of services offered and understand the patient experience.

Through formal and informal communication, the Committee believes that it has received sufficient, relevant and reliable information from management, internal audit and the clinical team to enable it to discharge our responsibilities.

Continuing education and training

Throughout the year, the Committee received updates on developments in international medical best practice and The Board also received training on the current UK Corporate Governance Code, and proposed changes to the Code.

Clinical Quality and Safety Committee activities in 2018

We have seen continued improvements in our management information, which has enabled us to improve our knowledge both of what works well in our facilities and areas in which we must continue to develop. Further, the Committee has dedicated significant time alongside the Audit Committee, in overseeing the roll-out of a revised clinical quality risk framework for the business. The framework, which is vital for our business and the safety and wellbeing of our patients, continues to be embedded.

Clinical Quality and Safety Committee Report continued

Clinical Quality and Safety Committee activities in 2018 continued

Much of our focus this year has been dedicated toward driving continued improvement in data quality and consistency, which in turn provides the Committee with a fuller picture on performance across all of our facilities and with insight into some of the drivers behind clinical quality and safety. One of the Group's key clinical risk priorities has been on infection control and prevention, and we were delighted in 2018 to see both the robustness of analysis and data in this area, and the impact that educational initiatives are having across our facilities in driving improvements in controlling and preventing infections. We have also dedicated significant time as a Committee toward considering medicine management processes across our facilities, sepsis risk and hygiene monitoring. In all of our discussions, we reflect upon current international healthcare developments and consider ways in which we can use best practice internationally to drive improvements across the Group.

We have also taken time to consider some of the challenges in retaining the excellent talent amongst our clinical staff. The Committee reviewed the current EVEX doctor retention programme and, while noting that the total remuneration package available to doctors will always be important in determining retention levels, we are very pleased to see that the programme also focuses on ensuring that clinicians have opportunities to support their scientific activities and other areas that are important to them in their professional development. We see clinicians' involvement in developing services and innovation as being fundamental to the Group's long-term success.

Our Head of Clinical Process Unit of the Internal Audit Team updates us at every meeting on audits undertaken over the year, and our employees have been excellent in their supportiveness and openness in respect of internal audits and our subsequent Committee enquiries. This year's internal audits have included a review of thromboembolism, arterial hypertension and polypharmacy management processes, an assessment of antenatal care and monitoring in EVEX clinics based on national protocol and state program requirements, and an audit of medical documentation maintenance processes across a number of EVEX clinics.

The Group opened a number of new hospitals in Georgia in 2018, which are vital to the continued delivery of services to our patients. The Committee will continue to monitor the clinical standards in these new units. Additionally, the Committee is kept informed on the Ministry of Labour, Health and Social Affairs regulatory visits, inspections and reports on the facilities of the Group. The Clinical Risk department reports to the Committee on these matters, on the Group's discussions with the Ministry of Labour, Health and Social Affairs, and on audits arising from regulatory matters.

Committee effectiveness review

As detailed in the Corporate Governance Statement, the review of the Committee's effectiveness was performed by an external evaluator.

Overall, the findings of the most recent effectiveness review were positive. We are confident that some of the key findings from the previous review, particularly in terms of ensuring better management of key clinical risk areas, are being addressed through the introduction of a revised risk management structure within the Company and a clearer and better understood delineation in responsibilities between clinical and non-clinical audit teams.

Taking into account the findings of the review, the Committee also refreshed its membership over the year, with Fabian Blank joining the Committee. We believe that Fabian's experience and expertise, particularly around digital innovation in healthcare, will be important in allowing the Committee to support the Group's strategy in future, and will complement the existing skills and experience amongst members of the Committee.

Looking ahead to 2019

The Clinical Quality and Safety Committee considered its priorities for 2019 and its focus for the coming year is to:

- review a number of clinical process audits, including the management of Type II diabetes in primary healthcare settings, and antibiotic management; and
- focus on clinical risk management processes, ensuring joint working where appropriate with the Audit Committee on the wider risk management structure across the Group.

Nomination Committee Report

Ingeborg Oie
Chairman of the Nomination Committee

Chairman's Overview

I am pleased to present the Nomination Committee Report for 2018.

We were delighted to confirm, following a rigorous assessment process, the appointment of Bill Huyett as Chairman of the Board in September 2018. The Committee carefully considered succession arrangements for the post of Chairman, given views from our shareholders on the Board's independence and the importance of the Chairman being independent.

Since his appointment to the Board in 2017, Bill has brought to bear his deep and broad knowledge of healthcare systems and draws upon years of experience in corporate strategy and finance. Over this period, Bill has emerged as a natural successor to Irakli Gilauri as Chairman of the Board, and the Committee is very confident that Bill will continue to make a great contribution to the Group, building substantial value for shareholders.

I would like to thank Irakli Gilauri for the service that he has provided both to the Board and to the Group during his tenure as Chairman, and we are very pleased that the Board will continue to benefit from his contributions as a Director.

The Nomination Committee has this year given a renewed focus on Board and senior management succession planning. I reported in last year's report that the Committee facilitated a skills assessment exercise, assessing the current skills amongst our Board against those skills required at Board level to support us to meet both our current and future strategic priorities. This has been an extremely useful exercise for all of us on the Board and has formed the foundation of our most recent succession planning discussions.

The exercise identified digital health and technology, as one of the most important areas of expertise for the Board to strengthen in order to meet the future strategic needs of the Group. To that end, we were delighted to confirm the appointment of Fabian Blank to the Board in September 2018. We are confident that his wealth of knowledge and experience in digital health will be a valuable addition to the current skills mix within the Board.

I also want to note the contributions to the Group made during the year by Dr Caroline Brown, both as a member of the Audit Committee and as an adviser to the Board. Dr Brown stepped down from the role on 31 December 2018 to focus on her other non-executive appointments.

In 2018, we maintained gender diversity as a key focus for Board succession planning and continue to apply the Company-wide Diversity Policy. The Board also approved a strengthened version of the Board Diversity Policy, details of which are set out below. The Committee is of the view that diversity at all levels of the Group is pivotal to the effective delivery of our strategy. The more diverse we are as a Company, the more we have access to both a greater range of talent and to greater insight into the requirements of all of our patients and other stakeholders. We were very pleased to receive a report this year from management on the number of initiatives being undertaken across the Group to support diversity, and this will continue to be an important area of focus for us in 2019.

We have also dedicated time to considering our organisational culture, the competitive advantage that a robust and healthy culture can bring to the Group, and the ways in which our values are promoted throughout the organisation. We report elsewhere in this report on some of the measures we have employed to assess our culture, and we will continue to monitor this carefully over the next 12 months.

Lintstock, an external evaluator, performed a detailed review of the effectiveness of the Nomination Committee (referred to below) as well as the Board and other Committees, and this is discussed on page 88.

I am confident that the Company has dedicated, and continues to dedicate, significant time and energy toward ensuring that our Executive and Non-Executive appointment processes are effective and appropriate for the Company.

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

Ingeborg Oie
Chairman of the Nomination Committee
2 April 2019

Composition of the Nomination Committee and meetings

The majority of the members of our Nomination Committee are Independent Non-Executive Directors. The biographies of the members of the Nomination Committee are set out on pages 72 and 73.

The composition of the Nomination Committee and the members' meeting attendance in 2018 is set out in the Board and Committee meeting attendance section on page 68.

Meetings are attended by the CEO and, from time to time, other members of management may be invited to attend meetings in order to provide a fuller picture and deeper level of insight into key issues and developments. In addition, non-Committee Board members are also invited to attend.

Nomination Committee Report continued

Composition of the Nomination Committee and meetings continued
Meetings of the Nomination Committee take place prior to the Board meetings in order for the Committee to report its activities and matters of particular relevance to the Board.

Responsibilities of the Nomination Committee
The responsibilities and functioning of the Committee are governed by formal terms of reference approved by the Board. These were most recently reviewed by the Committee and the Board in December 2018, and are available on the Group's website: http://ghg.com.ge/uploads/files/ghg-nomination-committee-tors-7.pdf.

The key responsibilities of the Nomination Committee are:
- to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- to give full consideration to succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group, 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;
- to take into account the need for progressive refreshing of the Board by rigorously reviewing the performance of Non-Executive Directors; 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.

Continuing education and training
The Committee received refresher training on the UK Corporate Governance Code including the required composition of the Board and Board Committees, the recent changes to the UK Corporate Governance Code and diversity initiatives.

Nomination Committee activities in 2018
Succession Planning
In 2018, the Board, upon the Committee's recommendations, refreshed the membership of the Nomination, Remuneration, Audit and Clinical Quality and Safety Committees to ensure that they continue to have the right mixture of skills, experience, knowledge and independence to function effectively.

A particular focus for the Committee in 2018 has been on ensuring that there are effective succession planning processes in place in the Group, both for executive and non-executive positions. In respect of Board succession planning, the Committee facilitated a skills assessment exercise in late 2017, taking into account the skills required to meet current strategic priorities and the likely skills required to meet future strategic and organisational challenges. The skills that were assessed included financial and accounting expertise, information security and digital expertise, culture management, healthcare and understanding of good corporate governance practice.

Based in part on this assessment, the Committee recommended the appointment of Fabian Blank to the Board in September 2018. His knowledge and experience in digital health in particular are a very valuable addition to the current skills mix within the Board. In the circumstances, it was not considered appropriate to engage a search consultancy for this appointment, as our network of advisors provided a broad range of potential candidates. The Committee was also mindful of concerns raised by shareholders in 2018 about the composition of the Audit Committee, and a focus for the year has been on amending the Committee's membership in accordance with shareholder expectations.

Finally, in terms of Board and Committee composition, the Committee made a number of recommendations to the Board concerning the formulation of succession plans for the role of Chairman, culminating in the appointment of Bill Huyett to the role in September 2018.

We also reviewed the time commitment of the Non-Executive Directors. Following careful consideration of a range of factors, including all Directors' other current time commitments, of the outcomes of this year's Board and Committee effectiveness review – which concluded that the Board functions as a highly effective and efficient team – and with regard to the required skills on the Board to meet current and future priorities, the Committee is pleased to recommend to shareholders, through the Board, the re-appointment of all Non-Executive Directors at our 2019 Annual General Meeting.

In discussions on talent management in the Group, the Committee received reports in 2018 on the talent pipeline across the Group for senior management positions, and the ways in which career pathways are proactively developed for those with the potential talent to take senior management positions in the future.

Board recruitment and appointment process

Director appointment process

The Board has formal, thorough and transparent procedures in place for Board recruitment and appointment. As mentioned above, the Company's goal is to ensure that the Board is well balanced and appropriate for the needs of the business. The Nomination Committee has regard to the Board's balance of skills, knowledge, experience and diversity, including gender.

How do we identify candidates?

As we detail in the succession planning section above, the Committee frequently considers a skills matrix for the Board, which identifies the core competencies, skills, diversity and experience required for the Board to deliver its strategic goals. The Committee reviews the skills matrix when considering a potential new appointment to the Board, as well as reviewing the current and expected Board and Board Committee composition.

Any gaps in the Board's needs, identified either as part of a current Director's retirement, on in view of the changing strategic priorities, are used to inform the search for a new Director or Directors and the specific skills that are required will be identified, for example, an individual with international experience, or recent history serving on a particular board committee.

In identifying suitable candidates, we typically seek recommendations from trusted advisors but may also use open advertising or external search services to facilitate the recruitment. We carefully assess each candidate against our objectives and Board Diversity Policy, and take care that appointees have enough time available to devote to the position. The Committee is cognisant of Board diversity targets, including those recommended from the Davies Review and Hampton-Alexander Review. The Committee continues to consider both the most effective means of promoting diversity in all forms when considering Board appointments, and whether it is appropriate for the Group to adopt diversity targets.

What is the appointment process employed?

Shortlisted candidates are generally seen first by the Chairman, the Chairman of the Nomination Committee, the Senior Independent Non-Executive Director and the CEO. If the selection process progresses further, each potential candidate is invited to meet other members of the Nomination Committee as well as members of management. We then decide whether to recommend to the Board that the candidate be appointed first as an advisor to the Board and relevant Committees. It is our usual practice to appoint a Board candidate as an advisor prior to offering an appointment to the Board. This serves as an extended assessment of the candidate, who is paid the equivalent of a Director's fee and whose remit is restricted to Board and Committee matters.

After a candidate has served as an advisor, the Nomination Committee will agree whether to recommend that the candidate be appointed to the Board. The Board will ultimately resolve whether to make the suggested appointment.

Director induction

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

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

In 2018, a full induction programme was prepared for Mr Blank, including:

- meetings with the Chief Executive Officer and members of senior management to understand the Company and business priorities;
- visits to a number of EVEX facilities to meet with a range of clinical staff and patients; and
- an explanation of the requirements placed upon Directors by UK law and by UK Listing Rules delivered by the Company Secretary.

Corporate culture

The Committee has also considered the ways in which organisational culture is developed and monitored. We report elsewhere on a number of metrics that are a good indication for the culture of the Group; reporting on such metrics will continue to evolve over 2019. We have also taken time to ensure that senior management take active steps to promote the Group's culture and values, the training and development initiatives across the Group to promote culture and the ways in which culture is embedded in our recruitment practices.

Starting in 2018, the Committee has played a leading role in exploring new and innovative opportunities for Directors to engage with, and actively shape, our corporate culture. Greater engagement between those below senior management level and the Board also serves to support employees' development. Dr Anderson has been appointed as the designated Non Executive Director for engagement with the workforce and will be supporting a calendar of activities starting from 2019. We look forward to carrying out the following projects together with the Board:

- site visits to our hospitals, polyclinics and pharmacies; meeting with managers and employees;
- hosting talent breakfasts;
- engaging Board members in Leadership Talks;
- mentoring and coaching our C-level executives, thereby; creating the culture and where a manager is also a coach;
- inviting middle managers to the Board meetings, and
- Organising "Meet the Board" events for employees.

Nomination Committee Report continued

Board Diversity Policy and Company Diversity Policy

The Company is fully committed to ensuring there is no unlawful or unfair discrimination, and it values the benefits that a diverse workforce brings to the organisation. The Board embraces diversity in all its forms as reflected in its Diversity Policy, described in this section. Diversity of skills, background, technical expertise, nationality, ethnicity and gender, amongst other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Notwithstanding the foregoing, any Board appointment will always be made based on merit.

As a Committee, we are entirely committed to the principles of equality and diversity, the value that a diverse range of experiences and perspectives can bring to organisations and to decision-making, and are committed to promoting diversity in all its forms across the Group. A focal area for us in 2019 will be to ensure that our diversity policies at both Board and organisational level continue to reflect that commitment.

All employees

The recruitment and selection process is a crucial step in the implementation of our Diversity Policy, described in this section. We endeavour, through appropriate training, to ensure that employees making selection and recruitment decisions will not discriminate, whether consciously or unconsciously, in making these decisions. All employees involved in the recruitment process will periodically review their selection criteria to ensure that they are related to the job requirements and do not unlawfully discriminate.

Our Diversity Policy states that job descriptions are to be aligned with the policy and job requirements will be reflected accurately in any personnel specifications. Further it states the Company adopts a consistent, non-discriminatory approach to the advertising of vacancies. All applicants who apply for jobs with us will receive fair treatment and will be considered solely on their ability to do the job.

Shortlisting and interviewing are to be carried out by more than one person where possible. Interview questions are to be related to the requirements of the job and will not be of a discriminatory nature. Development programmes and all promotions will be in line with this policy. Promotion and development are to be made on merit and all decisions relating to this will be made within the overall framework and principles of this policy.

In 2018, the Company ran a Leadership Programme for mid-level management, focused on developing and strengthening the pipeline of future leaders in the Group. The Committee is pleased to note that 59% of the participants on this programme were female.

Board and Committee effectiveness review

As per previous years, the Committee facilitated the evaluations of the Board and our Committees. For further details on the methodology of the evaluation, please read our Corporate Governance Statement.

The evaluation was undertaken by an external assessor, allowing for reflection on progress against the 2017 review, whilst also helping the Board and Committees to consider priorities for 2019. The outcomes of the 2017 Board and Committee evaluation were used, alongside the Board and Committee skills matrix, in determining some of our Board and Committee succession priorities this year.

The evaluation was primarily undertaken via questionnaire, with the evaluator having full access to the Board and to individual Directors. The areas of focus for the Board and Committee effectiveness review were determined by the Chair of the Nomination Committee in conjunction with the Board Chairman and Chairmen of the other Committees.

The Directors' Governance Statement (pages 66 to 70) includes a summary of the outcomes of the Board evaluation and the actions to be taken as a result of the evaluation.

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

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

Looking ahead to 2019

In the coming year the Nomination Committee will focus on the following areas, taking into account changes to the UK Corporate Governance Code:

- succession planning below senior management level, including promotion of initiatives designed to improve Board visibility of talent below senior management level;
- organisational culture and the ways in which management are actively promoting a healthy and successful corporate culture; and
- long-term Board succession planning, and alignment with the Group strategy process.

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

Remuneration Committee Report

Tim Elsigood
Chairman of the Remuneration Committee

Chairman's Overview

Dear Shareholders,

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018 on behalf of the Board. This Remuneration Report is divided into two sections:
- our new Directors' Remuneration Policy (the "Policy") which will be presented to our shareholders for approval at the 2019 AGM on 22 May 2019; and
- the Annual Remuneration Report providing detail of amounts paid during the reporting year.

The Remuneration Committee carried out a wholesale review of the existing Policy in 2018/2019 supported by the UK General Counsel and Willis Towers Watson – an independent advisor appointed following a competitive tender process who have no other relationship with the Group. The review focused on the following areas:
- the alignment of remuneration with the Company's strategy and its growing portfolio;
- the relationship between pay and performance;
- developments in governance and investor views; and
- market competitiveness.

As part of this process, we sought the views of many of our shareholders in early 2019 through letters introducing the proposed Policy, calls and also face-to-face meetings with myself and other members of the Committee and we listened carefully to their feedback before making final decisions. Shareholders have been widely supportive and I would like to thank our shareholders for their engagement in our consultation process.

Overview of changes to policy

Our new Policy retains our innovative and shareholder-aligned framework which has received strong support from our shareholders previously (96.8% in favour). However, cognisant of the evolved corporate governance landscape and investor expectations for a UK premium listed company, the Remuneration Committee is proposing to introduce the following changes:
- discretionary deferred share compensation will be subject to a two-year post' vesting holding period;
- Executive Directors will be required to build and then maintain a shareholding equal to 200% of salary during employment which shall continue to apply for a further two years post-employment; and [1]
- enhanced malus and clawback provisions in relation to discretionary deferred shares that are consistent with UK best practice.

At its core, our review of the Company's remuneration policy for Executive Directors has sought to ensure that Executive Director remuneration is aligned to the Company's purpose and values, is clearly linked to strategy and promotes long-term sustainable performance by treating our CEO and Executive Directors (and the Executive Management team whose pay structure is modelled on that of the Executive Directors) as your partners in our Company. (For the purposes of this Remuneration Report, including the Policy, the Company means GHG PLC.)

The business has grown significantly since it divested from BGEO Group PLC in 2015 as demonstrated by the growth in the number of facilities we own or operate from 42 to 323 in the last three to four years, doubling our employee count and revenues increasing threefold to $335 million. With this change, the responsibilities of the CEO have grown. In addition, the Board, more than ever, views the CEO as critical to the execution of our strategy due to his unique expertise in the Georgian healthcare economy – the sole sector in which the Company operates. At the same time, whilst the value of the CEO's share salary compensation has fluctuated (up and down) with the changes in the share price of the Company over the last three years, his base compensation and his discretionary deferred share compensation have not increased since the IPO.

Taking all these factors into account, the Committee is proposing an increase to:
(i) the CEO's total salary: the cash salary element to increase to US$375,000 (currently US$225,000), while the deferred share element of the CEO's base salary will remain unchanged at 175,000 shares per annum; and
(ii) the maximum discretionary deferred share compensation that can be awarded to the CEO is to be increased to 150% of salary (currently 100%).

However, under the new Policy, each tranche of discretionary deferred shares will be subject to a new holding period in addition to the vesting periods, so that the total vesting and holding period for the discretionary deferred shares will be up to five years.

Pension benefits will be fully aligned with that of the Georgian workforce, and in line with new Georgian legislation: Executive Directors will be offered at the same percentage as that of the wider workforce, with employer contributions equal to 2% of remuneration from JSC GHG.

1 While under the prior policy this occurred naturally and the current CEO today holds, in vested and unvested shares, more than 200% of his salary, we have decided to make this a formal requirement for Executive Directors.

Remuneration Committee Report continued

The Remuneration Committee believes this to be an equitable proposal for both shareholders, CEO and future Executive Directors and one which can retain and incentivise Executive Directors to deliver on our strategic objectives whilst being reasonable and proportionate in terms of monetary value. Subject to the approval of our shareholders, the cash salary and cap with respect to discretionary deferred shares increases will take effect from the date of the AGM 2019. The Remuneration Committee does not intend to consider any further increases to the CEO's compensation before the Policy is next due for renewal.

Finally, the Remuneration Committee is cognisant of shareholder feedback on our remuneration report and is committed to being transparent in the level of disclosure associated with Executive Directors performance targets where this does not risk disclosing commercially sensitive information.

The new Policy is set out in full on pages 90 to 99.

Pay for performance in 2018

The Remuneration Committee made its annual determination of the discretionary remuneration for the CEO and for senior management. We measured Mr Gamkrelidze's performance against the KPIs set by the Remuneration Committee. Alongside Group financial targets the Remuneration Committee considered a number of stretching individual targets with key achievements including the leading role he has played in driving the completion of the substantial three-year investment programme and business roll-out in all key areas of the healthcare system covered by Georgia Healthcare Group.

As a consequence of the performance summarised above, the Remuneration Committee approved an award of 50% of maximum opportunity which the Remuneration Committee consider to be a fair reflection of the his and the Company's performance. Full detail on the performance targets set in respect of 2018 and the level of performance achieved can be found on pages 101 and 102.

We have provided more detail this year, having listened to shareholder feedback. We trust that shareholders will find this detail meets the desired level of transparency.

Other activities of the Remuneration Committee

- Considered the revised UK Corporate Governance Code 2018 and the impact on role and remit of the Remuneration Committee.
- Actively engaged with workforce during site visits across the country.
- Reviewed and recommended updated Terms of Reference of the Committee.
- Reviewed the Group companies remuneration structure.
- Reviewed changes to pension provision following the introduction of Georgian state pension legislation.

Looking forward

The Committee have devoted a considerable amount of time to reviewing the executive remuneration framework and subject to shareholder approval, it is our intention that the new Policy will operate for the next three years as the CEO and Executive Directors and the Executive Management Team continue to focus on delivering long-term value to you, our shareholders. We hope that the new Policy will meet with your support at the upcoming 2019 Annual General Meeting.

Tim Elsigood
Chairman of the Remuneration Committee
2 April 2019

What is in this report?

This Directors' Remuneration Report describes the implementation of Company's Directors' Remuneration Policy and discloses the amounts earned relating to the year ending 31 December 2018.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The Remuneration Report has been prepared in line with the recommendations of the new UK Corporate Governance Code 2018 and the requirements of the UKLA Listing Rules.

This report details the new Policy which will be voted on at the 2019 AGM, and how it differs from the 2016 Policy. Subject to approval by shareholders, the new Policy will apply from the 2019 AGM. The full 2016 policy can be found on pages 96 to 101 of the Annual Report 2017: http://ghg.com.ge/uploads/files/GHC%2028272%20Annual%20Report%202017%20WEB.pdf.

The Annual Report on Remuneration (set out on pages 89 to 107), which includes the Annual Statement by the Chairman of the Remuneration Committee set out on pages 89 and 90, will be subject to an advisory vote at the 2019 AGM.

DIRECTORS' REMUNERATION POLICY

Subject to Shareholder approval, this Policy will take effect from the date of 2019 AGM on 22 May 2019 and will become formally effective for three years following that date.

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 agreements (as detailed in more information below), deferred share remuneration schemes and pension and benefit plans. After the Policy becomes effective after the 2019 AGM, the Group will either amend the existing terms of the service contracts of, or enter into new service contracts with, the Group's sole executive director and CEO, Nikoloz Gamkrelidze to incorporate the terms of the new Policy.

The Remuneration Committee retains its discretion under the new Policy to make minor amendments to the Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without obtaining prior shareholder approval.

Executive Directors' Remuneration Policy

The Policy provides for an Executive Director's remuneration package to be comprised of the elements set forth below. For the avoidance of doubt, all references to Executive Directors refer to the Executive Directors of GHG PLC and currently covers the present Executive Director, Nikoloz Gamkrelidze. The compensation structure of the Executive Management Team (a group of about 5-10 people who serve on the management board of the Group, but who are not Executive Directors of GHG PLC) is set by the Remuneration Committee and is modelled on this Policy but the Remuneration Committee is not bound by the Policy when setting their remuneration packages. The Remuneration Committee can set different vesting terms and conditions for the Executive Management Team as it thinks appropriate.

Salary in the form of cash and long-term deferred shares

Purpose and link to strategy	Operation	Opportunity
• Salary is comprised of both long-term deferred shares (deferred share salary) and cash salary. • An Executive Director's salary together with other components of an Executive Director's remuneration package is competitive enough to attract, retain and develop high-calibre talent whilst creating a remuneration structure that supports reward over the long term. **Cash salary** • Cash salary is set at a competitive level that comfortably covers reasonable living expenses. **Deferred share salary** • To promote long-term value creation and share price growth. • To encourage long-term commitment to the Group. • To closely align the Executive Directors' and shareholders' interests. • When combined with the other elements of the package, overall cash and deferred share salary is competitive enough to attract, retain and develop high-calibre talent.	• The level of base salary for an Executive Director is fixed in his or her service agreement(s). The level of salary is reviewed by the Remuneration Committee on the earlier of a service agreement or this Policy being up for renewal. **Cash salary** • Cash salary payable under the current CEO's GHG contract is expressed in US dollars but paid in GBP on each monthly payment date. • Cash salary payable under the service contract of the current CEO with JSC GHG is expressed in US dollars but paid in Lari on each monthly payment date. **Deferred share salary** • Deferred share salary is awarded in the form of nil-cost options annually in respect of the work year usually towards the beginning of that year. (None of the award vests in the work year or the year after, and it is subject to pro rata lapse.) • Deferred share salary will vest over a five year period from the start of the year in which the salary is earned as follows: 25% will vest on each of the second, third, fourth and fifth anniversary of the start of the work year. • At vesting, an Executive Director receives (in addition to the vested deferred share salary) cash payments equal to the dividends paid on the underlying shares between the date award was made and the vesting date. • Lapse provisions (natural malus) and extended claw back and malus applies under the circumstances as set out in the notes to this Policy table.	• The amount of cash salary and deferred share salary for the CEO is fixed for the duration of the employment contract with GHG and JSC GHG, in the event that another Executive Director appointed, the value of his or her total salary and bonus opportunity (i.e. the discretionary deferred shares) would not exceed that of the CEO at the time unless the Remuneration Committee considers it reasonable in the circumstances to do so. • The Remuneration Committee has the discretion to change the split of total salary between cash salary and deferred share salary. **Cash salary** • The total amount payable to Mr Gamkrelidze is $375,000. **Deferred share salary** • The total number of deferred share salary shares is fixed at 175,000 per annum.

Remuneration Committee Report continued

Performance-based remuneration – Discretionary deferred shares

Purpose and link to strategy	Operation	Opportunity
• In the context of overall Group performance, to motivate and reward an Executive Director in relation to his or her contribution to the achievement of the KPIs set for him or her by the Remuneration Committee towards the beginning of the work year. • Performance-based remuneration solely in the form of deferred shares (no cash bonus) in order to: – Closely align the interests of an Executive Director with those of shareholders – Avoid inappropriate risk taking for short-term gain – Encourage long-term commitment to the Group	• Performance-based remuneration is awarded annually entirely in the form of nil-cost options over GHG shares subject to vesting ("discretionary deferred shares"). The Company does not award cash bonuses. • The Remuneration Committee will determine annually whether an award is merited based on the Executive Director's achievement of the KPIs set for the work year and the performance of the Group during that work year. If appropriate where a strategic change or change in business circumstances has made one or more of the Executive Director's KPIs an inaccurate gauge of performance, the Remuneration Committee may decide to base its assessment on alternative measures. The outcome of an Executive Director's performance and the Remuneration Committee's determination will be reported in the Directors' Remuneration Report for the work year in consideration. • Any discretionary deferred shares will be normally granted following the end of the work year, although the Remuneration Committee retains the discretion to determine the timing of the awards. Any discretionary deferred shares will vest 33.33% in each of the second, third and fourth years following the end of the work year (effectively over four years from the beginning of the work year). • Vested discretionary deferred shares must then be held for a further two years. • At vesting (upon exercise of the nil-cost options), an Executive Director receives (in addition to the discretionary deferred shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. • KPIs for the Executive Directors are set towards the start of each work year and reflect each Executive Director's targeted contribution to the Group's overall key strategic and financial objectives for the coming year. KPIs may also include non-tangible factors such as self-development, mentoring and social responsibility. • There is no contractual right to discretionary remuneration and the Remuneration Committee reserves the right to award no discretionary deferred shares if the Group's performance is unsatisfactory. • Lapse provisions (natural malus) and extended clawback and malus applies under the circumstances as set out in the notes to this Policy table.	• For Mr Gamkrelidze and any other Executive Director, the maximum number of discretionary deferred shares that may be awarded in respect of the previous work year is 150% of total salary (i.e. cash and deferred share salary).

Pension

Purpose and link to strategy	Operation	Opportunity
• Pension provision is the same for all employees in Group in Georgia. • The Company is required to comply with pension requirements set by the Georgian Government.	• Pension provision will be in line with Georgian pension legislation, which may change from time to time. The most recent pension legislation that GHG must comply with has been in effect since January 2019. • There is no provision for the recovery or withholding of pension payments.	• The same arrangement applies to employees across the Group in Georgia. • In line with current Georgian legislation, the Executive Director and the Group each contribute 2% of JSC GHG remuneration and the Georgian Government may contribute a further small amount (0-2% depending on income levels). • Pension contributions will only increase above this level if mandated by Georgian legislation or any other applicable legislation including in other jurisdictions.

Benefits

Purpose and link to strategy	Operation	Opportunity
• Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	• Benefits consist of: life insurance; health insurance; incapacity/disability insurance; Directors' and Officers' liability insurance; tax gross-ups; physical examinations; company car and driver; mobile phone costs; personal security arrangements (if requested by the Executive Director); and assistance with completing tax returns (where required), relocation costs for Executive Director and close family and legal costs. • Other benefits may be provided from time to time if considered reasonable and appropriate. • There is no provision for the recovery or withholding of benefits.	• There is no prescribed maximum on the value of benefits payable to an Executive Director. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Executive Director is based. • 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.

Remuneration Committee Report continued

Other Executive Director Policies – Shareholding guidelines

Purpose and link to strategy	Operation
• To further align Executive Directors' interests with those of shareholders. • To ensure Executive Directors build and then maintain a significant shareholding in the Company over the long term. • To ensure departing Executive Directors make long-term decisions and maintain an interest in the ongoing success of the Group post-employment.	• Executive Directors are required to build and then maintain a shareholding equivalent to 200% of total salary (i.e. cash and deferred share salary) such amount to be built up within a five-year period from appointment as an Executive Director (the "required shareholding"). • For these purposes all beneficially owned shares as well as unvested (net of tax) and vested, deferred share salary and discretionary deferred shares are counted towards the required shareholding (as such awards are not subject to any performance conditions after grant). Meeting and maintaining the required shareholding is thus likely to happen naturally over the course of the Executive Director's employment. • Executive Directors are to maintain the lower of the required shareholding or the Executive Director's actual shareholding at the time employment ceases for a period of two years from the date on which employment ceases unless the Remuneration Committee determines otherwise. • In very exceptional circumstances, for example in the event of a serious conflict of interest, the Remuneration Committee has the discretion to vary or waive the required Shareholding but must explain any exercise of it's discretion in the Group's next Remuneration Report. It should be emphasised that there is no present intention to use this discretion.

Notes to the Policy table

Cash salary

The Remuneration Committee has the discretion under the policy to change the currency in which cash salary is paid and also has the discretion to determine the appropriate exchange rates for determining the cash salary to be paid.

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. Heavily weighting salary in favour of deferred share compensation rather than cash means that the 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 Executive Director's service contract and is therefore not subject to performance targets or measures. The Executive Director's salary increases or declines in value depending on Group performance in the subsequent work years, thereby aligning the Executive Director's interests directly and naturally with those of the Group's shareholders.

For FY 2019 deferred share salary will be awarded after the Policy becomes affective but vesting will be adjusted as if it had been awarded in January 2019 and so 25% will vest in each of January 2021, January 2022, January 2023 and January 2024.

Performance-based (Discretionary Deferred Share) Remuneration

Performance is recognised entirely through the discretionary deferred share compensation plan, which measures and rewards performance over the financial year. The majority of remuneration is inherently linked to performance and shareholder value as the majority of remuneration is in the form of deferred share salary and discretionary deferred shares. The Group does not operate an LTIP because it believes that there is sufficient long-term incentive built into its deferred share salary and discretionary deferred share remuneration.

Measures are chosen to reflect strategic priorities for the group and will be chosen by the Remuneration Committee annually towards the beginning of the performance year. The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the Executive Director and the Executive Management team as a whole is determined annually by the Remuneration Committee in its absolute discretion, based on a number of factors including:

- operating and quality objectives;
- financial results;
- strategic objectives; and
- people and culture development impact.

The Remuneration Committee does not use strict weighting of performance measures to ensure that flexibility is encouraged if, for example, strategic objectives evolve as the Group does or business circumstances change during the year. The Remuneration Committee believes that this flexibility ensures that the Board can work with an Executive Director so that he/she does not take excessive risk to achieve KPIs when, for example, markets have turned. The Committee has the discretion to reduce awards, including to zero, when performance outcomes do not align to the shareholder experience. The precise measures will be determined by the Remuneration Committee and disclosed retrospectively in the Remuneration Report following the year of the Remuneration Committee's determination.

As mentioned in the Policy table above, the current 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 150% of his total salary. For these purposes, total salary comprises the annual cash salary and the deferred share 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 at 14 December 2018 being the date on which the Remuneration Committee adopted, subject to shareholder feedback and approval, the terms of the new compensation and bonus structure reflected in this Policy.

Clawback and malus

Discretionary deferred shares remuneration are subject to malus, and clawback for up to two years from vesting, in the following circumstances:
- significant financial losses, serious failure of risk management or serious damage to the reputation of the Company or JSC Georgia Healthcare caused by misconduct or gross negligence (including inaction);
- material misstatement or material errors in the Financial Statements that relates to the area of responsibility of the executive or can be attributed to action or inaction of the executive's performance of duties.
- deliberately misleading the Company or JSC Georgia Healthcare;
- misconduct in the performance of or failure to perform duties; and
- payments based on erroneous or misleading date, for which malus and clawback of discretionary deferred remuneration apply to discretionary deferred remuneration awarded for year in question.

Provided that the Policy is approved by shareholders at the AGM 2019 these above provisions will form part of Mr Gamkrelidze's service contract either by amending his existing contract or entering into a new one. The Company also intends to amend the Executive Share Equity Compensation Plan to reflect the above.

Furthermore, for the Company's current Executive Director and CEO, Mr Gamkrelidze, the Group also has unusually strong "natural malus" provisions since all unvested shares (including deferred share salary and discretionary deferred shares) lapse if the contract is terminated under certain circumstances, including for "cause" such as gross misconduct, failure to perform duties, material breach of obligations and unethical behaviour. This may result in loss of several years of salary deferred shares and discretionary deferred shares. See the "Termination of the JSC GHG service agreement" in the table below for more information.

Discretion

The Remuneration Committee retains certain discretion in relation to this Policy. This includes:
- The determination of discretionary deferred remuneration award, if any;
- Selection of KPIs that will determine the discretionary deferred remuneration, which may vary from year to year in order to align with strategy and financial objectives;
- Any adjustments required to an Executive Director's KPIs during the work year when, for example, there has been a change in strategy or business circumstances which results in one or more of KPIs becoming an inaccurate gauge of performance; and
- The discretion to override formulaic outcomes where it considers it reasonable in the circumstances to do so prior to or upon vesting of discretionary deferred shares.

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.

Business expenses

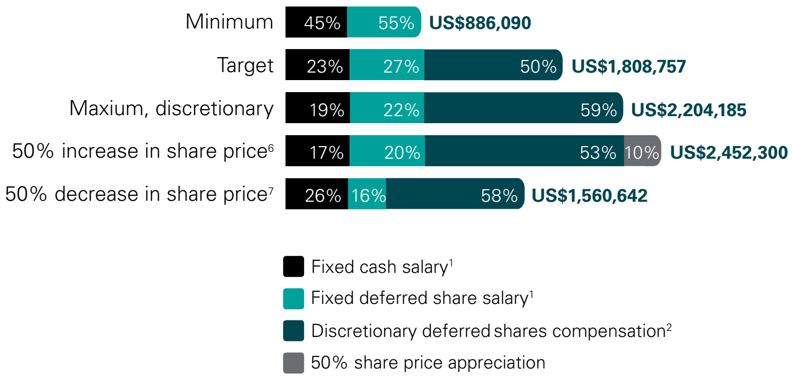
Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contract, on provision of valid receipts.

Remuneration Committee Report continued

Illustration of GHG's remuneration policy

The chart below shows the remuneration which Mr Gamkrelidze, the sole Executive Director, could receive under the proposed Policy at three different performance levels. We have used 2020 as this is the complete first year the new Policy would have been in place.

The 50% share price appreciation disclosure is made voluntarily by the Group (as performance measures are limited to one year) for investor information.



1 Salary is comprised of cash, deferred share salary, benefits and pension contributions. Mr Gamkrelidze's total cash salary in 2020 in respect of both his service contract with GHG and JSC GHG will be US$375,000. Deferred share salary will be 175,000 nil cost options. The value attached to each GHG share is calculated by reference to the share price on 14 December 2018, being the date on which the Remuneration Committee adopted, subject to shareholder feedback and approval, the terms of the new compensation and bonus structure reflected in this Policy, which was US$2.78 (based on the official share price of GBP 2.20 per share converted into US$ using an exchange rate of US$1.2616, being the official exchange rate published by the Bank of England on the previous date, i.e. 13 December 2018). Deferred share salary in respect of 2020 will be formally granted in January 2020 and will vest from January 2022 to January 2025.

2 The discretionary deferred share maximum opportunity is a fixed dollar amount – see notes to the Policy table above

3 Minimum opportunity reflects a scenario whereby Mr Gamkrelidze receives only fixed remuneration comprised of cash salary, deferred share salary (calculated as described above), pension contributions and benefits. No share price growth assumptions have been made.

4 On-target opportunity reflects a scenario whereby Mr Gamkrelidze receives fixed remuneration (as described in 3 above) and discretionary deferred shares (calculated as described above), being 70% of the maximum opportunity. No share price growth assumptions have been made.

5 Maximum opportunity reflects a scenario whereby Mr Gamkrelidze receives fixed remuneration (as described in 3 above) and discretionary deferred shares (calculated as described above) being 150% of the maximum opportunity. No share price growth assumptions have been made.

6 Voluntary disclosure of maximum opportunity plus 50% share price growth whereby Mr Gamkrelidze receives fixed remuneration (as described in 3 above) and discretionary deferred shares (calculated as described in 5 above) at 100% of the maximum opportunity. Share price grows by 50% is only in relation to deferred salary shares because the maximum discretionary deferred share opportunity is fixed to a dollar amount, which is then awarded in shares.

7 Voluntary disclosure of target opportunity with 50% share price depreciation whereby Mr Gamkrelidze receives fixed remuneration (as described in 3 above) and discretionary deferred shares (calculated as in 4 above) at 70% of the maximum opportunity. Share price decline by 50% is only in relation to deferred salary shares because the maximum (or 70%) discretionary deferred share opportunity is fixed to a dollar amount (or 70% thereof), which is then awarded in shares.

8 For long-term incentive awards, disclosure of the value of the award in the event of a 50% share price appreciation is required by the Companies (Miscellaneous Reporting) Regulations 2018. Such disclosure is not required for short-term incentive awards, such as those made by the Group, where performance measures are limited to one year, nor is it required for salary compensation in the form of shares. The reason for this is that an increase in the value of the deferred shares resulting from share price appreciation in the period through to the vesting date is not considered to constitute remuneration for the purposes of the regulations. However, the Group has decided to voluntarily disclose information showing the value of a 50% increase in the share price for investor information.

Approach to recruitment remuneration

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 maximum remuneration package would comprise the components described in the policy table above. The Remuneration Committee may, at its sole discretion and taking into account the role assumed by the new Executive Director, vary the amount of any component in the package up to the limits set out in the Policy table above in relation to for new Executive Directors. 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.

In addition to the components and outside of the limits set out in the policy table the Remuneration Committee may also decide to provide to an incoming Executive Director:

- relocation support, tax support and legal fees depending on the individual's circumstances including where relevant to his or her family. The Group has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.
- upon the recommendation of the Remuneration Committee, a "buy out" incentive award intended to compensate the incoming Executive Director for any awards granted to an incoming Executive Director by a previous employer and which have been foregone as a result of an individual's employment with the Company. In these circumstances, the Company's 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.

Policy on payment for loss of office

Notice periods

At the date of this Annual Report, Mr Gamkrelidze is the current sole Executive Director of the Company.

Mr Gamkrelidze has a service contract dated May 2017 with GHG PLC for an indefinite term (subject to annual re-election at the AGM) which is terminable by either party on not less than four months' notice unless for cause where notice served by the Company shall have immediate effect. Mr Gamkrelidze also has a service agreement with JSC GHG dated 29 April 2015 for an employment term of five years which is terminable by the JSC with immediate effect and by Mr Gamkrelidze on not less than three months' notice or for cause where notice shall have immediate effect. Both documents are available for inspection by shareholders at the Company's registered office.

The Group's policy towards exit payments allows for a variety of circumstances whereby an Executive Director may leave the business. The Remuneration Committee reserves the right to determine exit payments other than those set out below where appropriate and reasonable in the circumstances to do so including where an Executive Director leaves by mutual agreement. The Remuneration Committee may decide to pay some or all of the Executive Director's legal fees in relation to the termination. In all circumstances the Remuneration Committee does not intend to reward failure and will make decisions based on the individual circumstances. The Remuneration Committee's objective is that any such agreements are determined on an individual basis and are in the best interests of the Group and shareholders at the time.

The provisions in section (1) and (2) below summarise the termination and payments for loss of office provisions pursuant to Mr Gamkrelidze's service agreement with GHG PLC and JSC GHG respectively. The Remuneration Committee retains the discretion to apply different notice termination and payment for loss of office provisions to incoming Executive Directors.

a. Termination of the GHG PLC service contract

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 for "cause" which includes' 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.

On termination by notice or for cause there will be no other entitlement.

b. Termination of the JSC GHG service agreement

Termination reason	Separation payments	Vesting and lapse of awards
Termination by JSC GHG for cause	• Accrued but not yet paid: salary, dividends (or equivalent amounts), benefits and expenses.	• Any unvested awarded deferred cash share salary and discretionary deferred share compensation as at the date he ceases to be an Executive Director shall lapse.
Termination by JSC GHG without cause	• As per termination by JSC GHG for cause but with the addition of a leaving allowance and severance payment of not less than six months' cash salary (but not deferred share salary).	• Any unvested awarded deferred share salary and discretionary deferred share compensation as at the date when he ceases to be an Executive Director shall continue to vest in the normal way during the respective vesting period(s).
Termination by the Chief Executive Officer for good reason	• As per termination by JSC GHG for cause but with the addition of a leaving allowance and severance payment of not less than three months' cash salary (but not deferred share salary).	• Any unvested awarded deferred share salary and discretionary deferred share compensation shall vest immediately.
Termination by the Chief Executive Officer without good reason	• As per termination by JSC GHG for cause.	• Any unvested awarded deferred cash salary and discretionary deferred share compensation as at the date when he ceases to be an Executive Director shall lapse.

For termination for death, permanent disability or changed or control, the Separation payments shall be as for "Termination by the Chief Executive without good reason," but vesting and lapse shall be as for "Termination by JSC GHG without cause" above.

Remuneration Committee Report continued

There are also garden leave provisions and non-compete provisions which may apply up to four months after termination of the service agreement and during which time the Executive Director would be paid cash but not accrue deferred share salary or discretionary deferred shares.

c. Termination of Non-Executive Directors' appointment
Each Non-Executive Director is required to submit himself or herself for annual re-election at the AGM.

The letters of appointment provide for a one-month notice period although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any serious breach or non-observance of his or her obligations to the Group, is guilty of fraud or dishonesty, brings the Group or him/herself into disrepute or is disqualified from acting as a Non-Executive Director, among other circumstances. Upon termination, the only remuneration a Non-Executive Director is entitled to is accrued fees as at the date of termination, together with reimbursement of properly incurred expenses incurred prior to the termination date.

Consideration of employment conditions elsewhere in the Group

The Remuneration Committee does not formally consult employees when drawing up Directors' Remuneration Policy but in determining an Executive Director's remuneration, the Remuneration Committee considers:
(i) the pay and employment conditions of the senior management including Executive Management;
(ii) any changes in pay and employment conditions across the Group as a whole;
(iii) whether employees across the Group are personally satisfied with the way they are remunerated; and
(iv) any feedback received during the year from the Human Resources department, Executive Management and other employees on the executive remuneration structure.

When developing the Policy being put to vote at the 2019 AGM, the Remuneration Committee reviewed equivalent elements of pay in the workforce. The Remuneration Committee benchmarks remuneration at all levels within the Group in order to ensure that our remuneration is competitive in order to attract the right candidates and remain competitive in order to motivate, satisfy and retain our talent. We regularly monitor staff attitudes regarding remuneration. In 2018 we focused on researching our performance management and benefits strategy. On the whole employees responded that such is largely satisfactory; nevertheless in 2019 we decided to change several factors which were highlighted by our respondents to make our performance based remuneration strategy more agile. The Group also asked employees about healthcare insurance benefits – some unfavourable responses have challenged us to create new healthcare plan for GHG employees. In 2018 we commenced exit interviews, according to which remuneration is satisfactory; several target groups of our employees reported on the need to change some elements of the remuneration system (mostly regarding the variable salary) which we will take into consideration in 2019-2020.

Further information on how pay differs throughout the organisation is provided below.

Differences in the remuneration policy for executives relative to the broader employee population

For a FTSE All-Share company of our size and depth operating in a developing market, our Executive Directors must have the skills, experience, work ethic and attitude required to successfully execute our strategy, manage evolving public policy demands, meet our objectives and create value for shareholders over the long term.

In order to recruit and retain this talent, we assess the value of remuneration against other FTSE companies of similar size and sector listed in the UK. The compensation structure of the Executive Management Team of the Group, who are not Executive Directors, is set by the Remuneration Committee and is modelled on the Policy but the Remuneration Committee is not bound by the policy when setting their remuneration packages. The most of the Executive Management Team are not paid cash bonuses and therefore remuneration in the form of deferred shares will comprise by far the largest part of total remuneration to ensure maximum alignment with shareholders and to help set the tone from the top.

The compensation of employees in the Group, other than Executive Directors and the Executive Management Team, is benchmarked against the Georgian labour market as this is the most relevant comparator. Our employees are offered competitive remuneration packages which include benefits and the opportunity to participate in the pension scheme on the same terms as applicable to Mr Gamkrelidze and the Executive Management Team. Bonuses are usually paid in cash. The Remuneration Committee are regularly updated by the Human Resources department in respect of the pay and conditions of the wider workforce.

Non-Executive Directors' Remuneration Policy

Fees for Non-Executive Directors are made up of a base cash fee, plus additional fees for Committee membership. The Policy provides for a Non-Executive Director's remuneration package as follows:

Component	Purpose and link to strategy	Operation	Opportunity
• Base cash fee.	• Attract and retain experienced individuals.	• Cash payment on a quarterly basis. • The fee of the Chairman will be determined by the Remuneration Committee. Fees for Non-Executive Directors will be determined by the Board. • The amount of remuneration may be reviewed from time to time by the above, which may take into account the time commitment, responsibilities and the technical skills required to make a valuable contribution to the Board, and by reference to comparators, benchmarking, results of the annual review and other guidance. The Board also reserves the right, in their discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. • Non-Executive Directors are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties.	• The fees paid to each Non-Executive Director will be disclosed in the relevant reporting year's Annual Report. • The Chairman receives a fee which reflects the extra time commitment and responsibility. • The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility. • The maximum aggregate GHG PLC fees for all Non-Executive Directors which may be paid under GHG PLC's Articles of Association is GBP 750,000. • A specific maximum has not been set for the individual base cash fee.
• Cash fee for each committee membership.	• Compensate for additional time spent discharging committee duties.	• Cash payment on a quarterly basis. • The amount of remuneration for committee membership is reviewed as above.	• The Chairman does not receive Committee fees.

Notes

1 Non-Executive Directors who are appointed to the Board of the Company and/or to the supervisory board of JSC GHG by shareholders (such as controlling 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.

Consideration of shareholder views

A formal shareholder consultation process was undertaken in early 2019 to gather investor feedback on the proposed remuneration policy. This includes letters, calls and face-to-face meetings with members of the Remuneration Committee. Shareholders were widely supportive of the proposals and their feedback has been taken into account during the development of the new remuneration policy set out here and also in the Directors' Remuneration Reports (for example, greater disclosure around CEO performance).

Remuneration Committee Report continued

ANNUAL REPORT ON REMUNERATION

The Remuneration Committee and its advisors

The Remuneration Committee is principally responsible to the Board for establishing a Remuneration Policy for the Executive Directors, Chairman, Non-Executive Directors and designated members of the Executive Management Team that rewards fairly and responsibly, and is designed to promote the long-term success of the Group. The Remuneration Committee's full Terms of Reference were last updated in December 2018 to reflect the principles and provisions of the 2018 UK Corporate Governance Code 2018. The Committee's terms of reference are available on our website at: http://ghg.com.ge/uploads/files/ghg-remuneration-committee-tors-87.pdf.

The Committee is comprised of three independent Non-Executive Directors: Tim Elsigood, David Morrison and Ingeborg Oie. Mr Gilauri stepped down from the Committee with effect from 20 September 2018.

The composition of the Remuneration Committee and the members' attendance is shown in the Board and Committee meetings attendance table on page 68.

In addition to the formal meetings held during the year, the Committee participated in various discussions by telephone outside of these meetings. Other attendees at Committee meetings who provided advice or assistance to the Committee on remuneration matters from time to time included the CEO, the other Board members, the UK General Counsel and the Group's Legal Director. Attendees at Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Committee received advice on compliance from Baker & McKenzie LLP, its legal advisors. The Committee continues to remain of the view that the advice received from Baker & McKenzie LLP is objective and independent and that the fees and the basis upon which they are charged remain commensurate.

To aid in formulating the new Policy, the Company engaged a specialised remuneration consultant, Willis Towers Watson ("WTW"), to conduct an independent review of the Company's current Remuneration Policy. The findings of this review were subsequently presented to the Committee and have been used as a basis for the ongoing shareholder engagement in respect of the new Policy. WTW are independent advisors appointed following a competitive tender process who have no other relationship with the Company. WTW's fees are typically charged on an hourly basis with estimates for work agreed in advance. During the year, WTW charged £29,000.

Shareholder context and Remuneration Policy and report

Our existing Directors' Remuneration Policy was most recently approved by shareholders at our AGM on 26 May 2016. The Directors' Remuneration Report received the following votes from shareholders at the 2018 AGM:

Resolution	Votes for	% for	Votes against	% against	Total votes cast/ Votes withheld
Approval of the Directors' Remuneration Report	119,961,911	97.13	3,540,638	2.87	123,872,934/0

Directors' remuneration

Single total figure of remuneration for the Executive Director (audited)

The table below sets out the remuneration earned by the Company's sole Executive Director, Nikoloz Gamkrelidze, in respect of his employment with the Group for the years ended 31 December 2018 and 31 December 2017. For 2018, 77.2% of Mr Gamkrelidze's compensation as set out in the table below is in the form of deferred shares that vest in tranches with a vesting period of up to four years.

Year ending	Cash salary (US$)[1]	Deferred share salary (US$)[2]	Total salary (US$)	Deferred share compensation (US$)[3]	Taxable benefits (US$)[4]	Pension benefits (US$)[5]	Total (US$)
2018	**225,000**	**452,022**	**677,022**	**338,511**	**7,360**	**1,495**	**1,024,388**
2017	225,000	452,022	677,022	575,369	43,089	1,575	1,297,055

Notes:

1 Cash salary is expressed in US dollars but paid in GBP and Lari as applicable, converted into the respective currency as described in Note 2 of the table in section 6.2 of the 2016 Remuneration Policy. Accordingly, there may be variations in the numbers above and those provided in the accounts.

2 Deferred share salary. The figures show the value of GHG shares underlying nil-cost options granted under the Executive Director's service contract with JSC GHG in respect of service in the relevant year. For 2018 and 2017, Mr Gamkrelidze was awarded 175,000 deferred share salary shares. The value attached to each GHG share is calculated by reference to the share price as of 12 November 2015, the date of admission to listing, which was US$2.58298 (based on the official share price of GBP 1.7 per share converted into US dollars using an exchange rate of US$ 1.5194, being the official exchange rate published by the Bank of England on the same date).

3 Discretionary deferred share compensation. The figure shows the value of GHG shares underlying nil-cost options granted in respect of service in the relevant year. The discretionary deferred share compensation award is capped at 100% of total salary. For 2018, options were awarded over 111,301 GHG shares. The value of the discretionary deferred share compensation is calculated by reference to the share price on 8 February 2019 which was US$3.0414 (based on the official share price of GBP 2.35 per share converted into US Dollars using an exchange rate of 1.2942, being the official exchange rate published by the Bank of England on the same day). For 2017, options were awarded over 122,900 GHG shares. The value of the discretionary deferred share compensation is calculated by reference to the share price on 10 December 2017, which was US$ 4.6816 (based on the official share price of GBP 3.50 per share converted into US Dollars using an exchange rate of US$ 1.3376, being the official exchange rate published by the Bank of England on previous business date i.e. 8 December 2017). Discretionary deferred shares awarded in 2018 are subject to three-year straight line vesting beginning in January 2020, subject to the leaver provisions described in section 4.5(b) of the 2016 Policy. The means of determining the number of shares underlying this compensation and the terms and conditions are described in section 4.2(b) of the 2016 Policy. The basis for determining Mr Gamkrelidze's 2018 discretionary award is described in section 3.2 below.

4 Benefits. The figure shows the gross taxable value of health and disability insurance and tax equalisation payments.

5 Pension. The figure shows the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme. Under the Group's defined pension scheme the normal retirement age is 65.

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

7 No money or other assets are received or receivable by Mr Gamkrelidze in respect of a period of more than one financial year, where final vesting is determined by reference to achievement of the performance measures or targets relating to a period ending in 2018.

The following table sets out details of total remuneration for the Chief Executive Officer, Mr Gamkrelidze, for the year ended 31 December 2018 and his discretionary compensation as a percentage of maximum opportunity.

	2015	2016	2017	2018
Single total figure of remuneration (US$)	1,205,387	1,330,797	1,297,055	**1,024,388**
Discretionary compensation as a percentage of maximum opportunity (%)	100	95	85	**50**

Note:
1 Maximum opportunity is 100% of total salary (cash salary and deferred share salary). Total salary for 2018 and 2017 is set forth in the table above.

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 2018, as well as his performance against these.

Key performance measure "KPI"	2018 target	2018 performance
FINANCIAL		
Achieving agreed Group revenue, EBITDA and free cash flow targets.	• Revenue target: GEL 863.5 million • EBITDA targets: GEL 140 million • Operating cash flow: GEL 108.5 million	• Revenue: GEL 850 million • EBITDA: GEL 132.3 million • Operating cash flow: GEL 99.6 million
Achieving revised targets for increased efficiency, measured by improvements in gross and net margin and ROIC.	• Gross margin 2018: 32.9% • Net margin 2018: 7.7% • ROIC 2018 (unadjusted): 11.1% • ROIC 2018 (adjusted): 14.1%	• Gross margin: 31.6% • Net margin: 6.9% (adjusted for one-offs and FX) • ROIC (unadjusted): 11.0% • ROIC 2018 (adjusted): 13.9%
CLINICAL		
Drive forward the quality culture within the Group by implementing and monitoring key measures across the business.	• Ensure that all hospital and clinic CEOs deliver continuous performance improvement against a series of quality indicators within their targeted KPIs that are regularly monitored and assessed by senior management. • Assist the Medical Director to implement a number of initiatives that measure and improve a hospital's quality performance, against the most important quality dimensions, on a monthly basis. • Ensure that Senior Doctors' performance is measured in relation to a number of quality indicators, benchmarked across the Group.	• For each of the three Clinical KPIs, there was improvement but not to the extent expected to meet the target. Therefore, some actions have been rolled over into 2019.
STRATEGIC DEVELOPMENT		
Driving through the agreed Growth Strategy.	• Develop the Management Fee related business. • Implement plans for increased Medical Tourism. • Drive forward the Outpatient Strategy.	• No appropriate opportunities were available. • Medical tourism plan for 2018 was met. • Outpatient client acquisition is on track.
Ensure that the Group IT Strategy supports the overall Group Strategy as well as operational performance.	• Particular emphasis to be placed on optimising opportunities for Digital Platforms and Integration between Healthcare and Pharma.	• Medical Ordering and Ambulatory EMR finalised; implementation and hospital roll-out is ongoing. • Doctor booking system, ePrescriptions, Payroll & HRMS process automation was implemented. • The Company's new digital healthcare platform ("DHP") is being developed; a delay in launch of the first iteration.

Remuneration Committee Report continued

Key performance measure "KPI"	2018 target	2018 performance
MANAGEMENT DEVELOPMENT AND STAKEHOLDER ENGAGEMENT		
Continuing to strengthen the depth of management across the Group, especially at senior and middle management level.	• Additions to and development of the team.	• Oversaw substantial restructuring of the Company, which created additional personal development and succession opportunities, and was completed in 2018. • Strengthened the second tier of management by hiring and promoting individuals within clinical, polyclinics and IT. • Extended individual development programme to middle management. • Involved most of the senior executives in an individual coaching programme.
Maintaining good relations with our stakeholders in Georgia.	• Demonstrated action toward the goals.	• Provided free flu vaccinations and turned polyclinics into 24/7 to provide support during a measles outbreak.

In addition to the KPIs listed in the table above, the Committee considers non-tangible factors such as leadership and forward-looking strategy development when determining Mr Gamkrelidze's discretionary compensation. Mr Gamkrelidze's KPIs largely track the Group's KPIs as he is expected to deliver on the Group's strategy, so that more information on the performance against the KPIs can be found in other sections of this Annual Report.

The Committee concluded that, in respect of 2018, Mr Gamkrelidze performed well against the significant majority most of the KPI targets. The Committee recognises that Mr Gamkrelidze has played a leading role in driving the completion of a substantial three-year investment programme and business roll-out in all key areas of the healthcare system. Of particular note include, the successful roll-out of the flagship hospitals, the completion of Mega Lab project, which is an important new business and revenue opportunity for the Group, and introduction of dental services into the polyclinics network to support the development of new and more diverse revenue streams. There have also been improvements in quality of care over the year driven by the Group's key strategic priorities.

Mr Gamkrelidze has driven a number of important operational changes, including reorganising senior management's organisational structure to better align with the business structure. Other such changes include the development and implementation of IT strategy for the Group, introduction of the Quality Culture indicators within the Group and improvements in the way we develop and retain talent. All of these changes will have a material impact in improving the way the business operates over the short and longer term.

The Committee also recognises that, against a backdrop of difficult market conditions and more general economic headwinds, the Group's performance against a number of financial key performance indicators was at the lower end of expectations.

As a result, the Committee determined that Mr Gamkrelidze's performance was generally in line with expectations and determined that Mr Gamkrelidze should be awarded discretionary deferred share compensation of 111,301 shares valued at US$338,511. This amounted to 50% of his maximum opportunity. The Committee remains of the view that the strong deferred remuneration element for the Executive Director is an effective mechanism for aligning management and shareholder interests. Section 4.2(b) of the 2016 Policy 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.

Further details of fixed and discretionary contingent deferred share compensation granted during 2018 (audited)

The following table sets out details of the nil-cost options over GHG shares which have been granted to Mr Gamkrelidze in 2018 in respect of the year ended 31 December 2017.

	Deferred share salary	Discretionary deferred share compensation
Number of underlying shares and basis on which award was made	175,000 granted on the basis described in the table in section 4.2 and section 4.2(a) of the 2016 Policy available at. http://ghg.com.ge/annual-reports.	122,900 granted on the basis described in the table in section 4.2 and section 4.2(b) of the 2016 Policy available at. http://ghg.com.ge/annual-reports.
Type of interest **Cost to Group** **Face value**	Nil-cost option US$202,699[1] US$452,022[1] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).	Nil-cost option US$575,369[2] US$575,369[2]
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of an Executive Director's salary set out in the service contract and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since the award is based on 2017 performance (and this is not a LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.
Vesting period	20% in each of 2019, 2020 and 2021 and 40% in 2022.	33% in each of 2019, 2020 and 2021.
Performance measures	None. See section 4.2(a) of the 2016 Policy available at http://ghg.com.ge/annual-reports.	See section 3.2 above and section 4.2(b) of the 2016 Policy available at http://ghg.com.ge/annual-reports.

Notes:
1 Cost to the Group is calculated using the value of US$1.16 per GHG share based on the EY valuation report dated 1 April 2015. For face value, the value attached to each GHG share is the share price as of 12 November 2015, the date of admission to listing, as described in Note 2 to the table in section 3.1 of the 2016 Annual Report available at http://ghg.com.ge/annual-reports.
2 Figures calculated as described in Note 3 to the table in section 3.1 of the 2017 Annual Report available at: http://ghg.com.ge/annual-reports.

Percentage change in the remuneration of the Chief Executive Officer

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2017 and 2018, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2017 and 2018. See section 3.1 for an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred compensation of Mr Gamkrelidze.

	Percentage change for the CEO between 2017 and 2018	Average percentage change for the Group's employees as a whole (excluding Mr Gamkrelidze) between 2017 and 2018
Total cash salary	0%	4.9%
Total deferred share salary	0%	0%
Taxable benefits	-82.9%	-8.4%
Total bonus (discretionary deferred share compensation, in the case of Mr Gamkrelidze, and deferred discretionary share compensation plus cash bonus, in the case of other employees of the Group)	-41.2%	16.2%

Remuneration Committee Report continued

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the remuneration received by each Non-Executive Director for the year ended 31 December 2018.

	GHG PLC fees (US$) 2018	JSC GHG fees (US$) 2018	Total fees (US$) 2018	Total fees (US$) 2017
Irakli Gilauri	–	–	–	–
Bill Huyett	59,994	59,994	119,988	47,714
David Morrison	83,500	72,500	156,000	156,000
Ingeborg Oie	67,977	52,977	120,954	104,542
Mike Anderson	59,000	48,000	107,000	107,000
Tim Elsigood	69,571	66,500	136,071	128,002
Jacques Richier	59,000	48,000	107,000	107,000
Fabian Blank	33,917	26,750	60,677	–
Total	432,959	374,721	807,680	752,377

Notes:
1 Bill Huyett was appointed as Chairman of the Board on 20 September 2018 and Irakli Gilauri stood down as Chairman of the Board on the same date.
2 Fabian Blank was appointed as a member of the Board, the Nomination Committee and the Clinical Quality and Safety Committee on 20 September 2018.
3 On 20 September 2018 further changes to the Committees were made: (i) Bill Huyett and Tim Elsigood were appointed to the Nomination Committee, (ii) Ingeborg Oie was appointed to the Audit Committee and stepped down from the Clinical Quality and Safety Committee, and (iii) Irakli Gilauri stepped down from the Remuneration Committee.

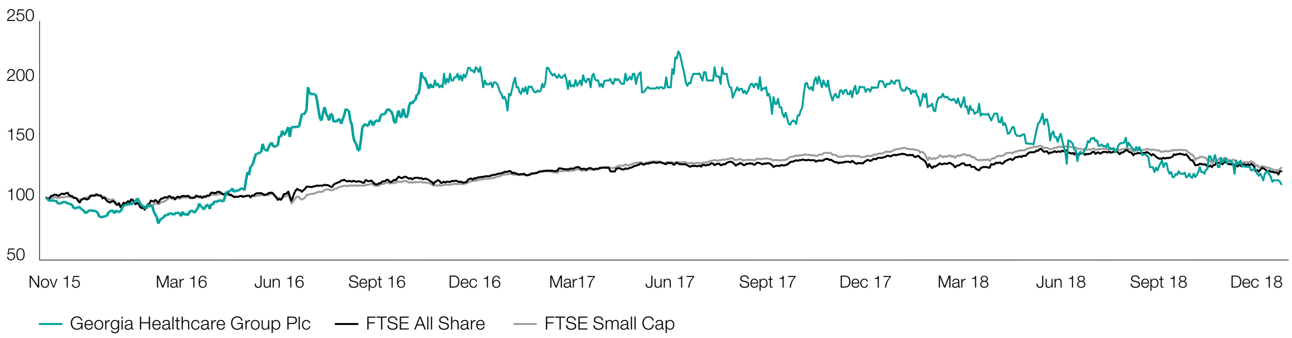
In accordance with the Articles of Association of GHG PLC, fees for Non-Executive Directors from GHG PLC (as distinct from any salary, remuneration or other amount payable to a Director pursuant to other provisions of the Articles of Association or otherwise) may not exceed GBP 750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of GHG PLC.

In 2018, no payments were made to past Directors, nor payments were made for loss of office.

Total shareholder return

Georgia Healthcare Group PLC TSR

The following graph compares the "TSR" of the Company with the companies comprising the FTSE All Share Index and FTSE Small Cap index, for the period since the Company's listing on the premium segment of the London Stock Exchange on 12 November 2015 until 31 December 2018. These comparators have been chosen on the basis that they are the markets within which GHG PLC operates.



Source: Thomson Reuters Datastream

Relative importance of spend on pay

The following table shows the Company's actual spend on pay for all employees.

	Remuneration paid to all employees of the Group
Year ended 31 December 2017 (US$)	65,999,923
Year ended 31 December 2018 (US$)	70,966,525
Percentage change	6.5%

There was no distribution to shareholders by way of dividend or share buyback in 2017 and 2018.

Directors' interests in shares audited

	As at 31 December 2017				As at 31 December 2018			
	Number of GHG shares held directly	Number of vested but unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in GHG shares	Number of GHG shares held directly	Number of vested but unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in GHG shares
Nikoloz Gamkrelidze[1]	117,500	114,167	615,314	846,981	392,972	–	716,720	1,109,692
Irakli Gilauri	411,700	–	–	411,700	411,700	–	–	411,700
David Morrison	116,600	–	–	116,600	116,600	–	–	116,600
Ingeborg Oie	29,000	–	–	29,000	46,677	–	–	46,677
Mike Anderson	11,500	–	–	11,500	11,500	–	–	11,500
Tim Elsigood	14,700	–	–	14,700	14,700	–	–	14,700
Jacques Richier	–	–	–	–	–	–	–	–
Bill Huyett	–	–	–	–	10,000	–	–	10,000
Fabian Blank[3]	–	–	–	–	10,000	–	–	10,000

Notes:
1 In 2018, Mr Gamkrelidze received awards of 175,000 salary deferred shares and 122,900 discretionary deferred shares for the 2017 work year.
2 Whilst the Remuneration Committee has determined the awards for discretionary deferred share compensation, this and the salary deferred shares will be reported in the 2019 Annual Report and Accounts and is not included in the table above, which is as at 31 December 2018. The awards received in 2019 in respect of the 2018 work year are 175,000 salary deferred shares and 111,301 discretionary deferred shares.
3 On 27 March 2019, Fabian Blank purchased 5,000 shares.

As at 2 April 2019, Mr Gamkrelidze's vested and unvested shareholding remains 1,109,692 GHG shares, representing approximately 0.6% of the share capital of GHG. The vesting period for the majority of unvested shares exceeds three years. None of Mr Gamkrelidze's connected persons have any interests in the shares of the Company.

The existing Directors' Remuneration Policy is heavily weighted towards remuneration in deferred salary shares and discretionary compensation in deferred shares. The long vesting periods, particularly for deferred salary shares, naturally leads to Executive Directors and eligible members of the Executive Management Team building up large holdings of unvested shares under its current Policy. Accordingly, the Group does not apply a shareholding guideline or impose a holding period on Mr Gamkrelidze's or executive management's shares. The Policy naturally results in Mr Gamkrelidze and our Executive Management Team holding a significant number of unvested shares and achieves a delay between performance and vesting. We believe these results are consistent with the principles of the Investment Association. However to further strengthen this, under the new proposed Policy the Company is introducing formal guidelines on shareholding and on post-employment shareholding.

Under the existing Directors' Remuneration Policy, the Group does not require Non-Executive Directors to hold a specified number of shares in GHG. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders.

Details of Non-Executive Directors' letters of appointment

The Company has entered into letters of appointment with each Non-Executive Director. The letters of appointment require Non-Executive Directors to provide one month's notice prior to termination. The letters of appointment for the majority of current Non-Executive Directors are effective from 4 September 2015, with Bill Huyett's and Fabian Blank's letter of appointment being effective from 18 June 2017 and 20 September 2018 respectively. Each Non-Executive Director is put forward for election at each AGM following his or her appointment. Continuation of a Non-Executive Director's employment is conditional on his or her continued satisfactory performance and re-election by shareholders at each AGM.

A succession plan adopted by the Board provides for a tenure of six years on both the GHG and JSC GHG Boards. Upon the expiry of such six-year tenure, the appointment of the relevant Non-Executive Director will generally cease at the next upcoming AGM.

Notwithstanding the foregoing, if the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Non-Executive Director on the Board beyond the relevant six-year period, the Board may offer the Non-Executive Director a letter of appointment for an additional one-year term. Such a one-year "re-appointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

Remuneration Committee Report continued

Shareholding of executive management

The following table sets forth the respective GHG shares held by the top members of our Executive Management Team as at 31 December 2017 and 2018.

	As at 31 December 2017			As at 31 December 2018		
	Number of vested GHG shares	Number of unvested GHG shares	Total vested and unvested GHG shares	Number of vested GHG shares	Number of unvested GHG shares	Total vested and unvested GHG shares
Irakli Gogia	–	204,784	204,784	–	226,612	226,612
David Vakhtangishvili	–	199,056	199,056	–	224,615	224,615
Giorgi Mindiashvili	–	197,763	197,763	–	216,619	216,619
Enrico Beridze	–	–	–	–	29,182	29,182

As mentioned in the Chairman's Statement, the structure of the Policy as it applies to currently Mr Gamkrelidze equally applies to Executive Management Team. Irakli Gogia, David Vakhtangishvili and Giorgi Mindiashvili receive a modest cash salary, deferred salary shares that vest over five years and the potential to earn discretionary deferred shares that vest over a three-year period.

The figures in the table above reflect deferred share salary and discretionary deferred shares granted in 2018 in respect of the 2017 work year. The predominance of deferred shares defines our remuneration structure. Like Mr Gamkrelidze, the Executive Management Team is focused on long-term value creation.

Committee effectiveness review and 2019 priorities

An external evaluator performed a review of the effectiveness of the Committee. The evaluation principally addressed the composition of the Committee, the structure and effectiveness of the Remuneration Policy and the performance evaluation process.

Overall, the performance of the Remuneration Committee was rated highly, with the Committee viewed as working effectively. The Committee is satisfied that good progress has been made on the priority areas identified from the previous Committee effectiveness review.

Our priorities for 2019 include implementation of the Company's revised Remuneration Policy, and in view of the feedback from the Committee effectiveness review, a greater focus on succession planning. The Remuneration Committee will work closely with the Nomination Committee to look at succession planning processes in place for future senior management positions within the Group.

Statement of implementation

This sections sets out information on how the Remuneration Policy will be implemented in 2019 if approved by shareholders at the 2019 AGM.

Shareholder approval for the existing Directors Remuneration Policy was last received at the 2016 AGM. The Company has proposed changes to the existing Directors Remuneration Policy, and will present the revised Policy (set out on pages 90 to 99) to shareholders for approval at the 2019 AGM. If the new Policy is approved by shareholders, the Company intends to implement the new Policy in 2019 as shown below.

a) For Nikoloz Gamkrelidze

Summary of planned implementation of the Remuneration Policy during 2019

The figures below are pro-rated given the new Remuneration Policy would be implemented after the AGM.

Policy element	Commentary	Implementation of the Remuneration Policy during 2019
Cash Salary	Combined GHG, JSC GHG and JSC Evex	US$312,500
Deferred share salary	JSC GHG	US$486,500
Pension	The Executive Director and the Company each contribute 2% of JSC GHG remuneration, and the Georgian government between 0-2% of an Executive Director's pay.	In line with Georgian pension legislation in effect since 1 January 2019.
Benefits	Details of benefits received by the Executive Director are on page 93.	No change to current arrangements is proposed in 2019.
Discretionary deferred compensation	Maximum 150% of total salary (including cash salary and deferred share salary). Awarded annually after the end of the work year in respect of which the award is made over a number of GHG shares to be determined by the Remuneration Committee, based on the performance of the Group and the achievement of the KPIs set for the Executive Director by the Remuneration Committee for the work year. Awards vest 33.33% in each of the second, third and fourth years following the work year. Vested deferred shares must then be held for a further two years. At vesting (upon exercise of the nil-cost options), the Executive Director receives (in addition to the vested shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.	Increase in maximum opportunity is proposed for the current CEO. Two year holding period for vested shares.

Policy element	Commentary	Implementation of the Remuneration Policy during 2019
Discretionary deferred compensation	For 2019, the Remuneration Committee plans to measure Mr Gamkrelidze's performance against KPIs which reflect the Group's strategy and priorities, as follows: FINANCIAL • Achieving agreed targets of: Revenue, EBIDTA, Free Cash Flow, ROIC and Net Income BUSINESS UNIT STRATEGIC AND ORGANISATION DEVELOPMENT Achieving measurable and softer targets in each business unit relating to: • Hospitals – improvements in care quality; further development of medical tourism strategy; improved network utilisation • Polyclinics – continued expansion of footprint; care quality and customer service improvements • Pharmacy and Distribution – same store profit growth and expansion of store network • Diagnostics (Megalab) – successful operational launch and development of internal and external volume • Medical Insurance – combined ratio and profitable business growth CROSS GROUP OPPORTUNITIES Achieving measurable and softer targets in each business unit relating to: • People development (including personal development) • Digital platform capabilities for customer attraction and retention and operational performance • Stakeholder effectiveness, including government and shareholder • Revenue synergies among the business units	

The Remuneration Committee has reviewed the detail of each KPI and ensured that measurable targets are included for each. These will be reviewed by the Remuneration Committee throughout the year and by the Board as appropriate. Due to the potential impact on our commercial interests, annual bonus weightings and targets are considered commercially sensitive and appropriate detail will therefore be disclosed in the 2019 Remuneration Report following the completion of the financial year.

There are circumstances in which unvested compensation may lapse and narrow circumstances in which it may vest immediately, and other malus and clawback provisions, all as set out in the Policy.

b) Non-Executive Directors' Remuneration

The table below shows the fee structure for Non-Executive Directors for 2019. Non-Executive Directors' fees are determined by Board.

Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee	The fee for the GHG Board is competitive enough to attract and retain individuals. The Chairman receives a fee which reflects the extra time commitment and responsibility. The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility.	Cash payment on a quarterly basis.	The amount of remuneration may be reviewed from time to time by the Board. The fees may be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The maximum aggregate GHG PLC fees for all Non-Executive Directors which may be paid by the Company shall be GBP 750,000, which is consistent with the current cap in GHG PLC's Articles of Association.
Cash fee for each committee membership	Additional fee to compensate for additional time spent discharging committee duties.	Cash payment on a quarterly basis.	The amount of remuneration for committee membership may be reviewed from time to time by the Board. The Chairman does not receive Committee fees.

Signed on behalf of the Board of Directors

Tim Elsigood
Chairman of the Remuneration Committee
2 April 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the consolidated and stand-alone Financial Statements in accordance with applicable law and regulations.

Company law requires us to prepare Financial Statements for each financial year. As required, we have prepared the accompanying consolidated and separate statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable law.

We must not approve the accompanying consolidated and stand-alone Financial Statements unless we are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing the accompanying consolidated and separate Financial Statements, we are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable us to ensure that the consolidated and separate Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the consolidated and stand-alone Financial Statements, Article 4 of the IAS Regulation.

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

We are also responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:
- the consolidated and stand-alone Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole; and
- the Strategic Report and the Directors' Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that it faces.

In arriving at this position, the Board was assisted by a number of processes that form part of its internal control and risk management systems, including the following:
- the Annual Report is drafted by appropriate senior management with overall coordination by the Head of Investor Relations to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report are undertaken by the Chief Executive Officer and other senior executive management;
- an advanced draft is considered and reviewed by GHG's legal advisors; and
- the final draft is reviewed by the Audit Committee prior to consideration by the Board.

We consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Board

Bill Huyett
Chairman
2 April 2019

Nikoloz Gamkrelidze
Chief Executive Officer
2 April 2019

Directors' Report

The Directors present their Annual Report and the audited consolidated Financial Statements for the year ended 31 December 2018.

Strategic Report

The Strategic Report on pages 2 to 65 was approved by the Board of Directors on 2 April 2019 and signed on its behalf by Nikoloz Gamkrelidze, Chief Executive Officer.

Management Report

This Directors' Report together with the Strategic Report on pages 2 to 65 form the Management Report for the purposes of DTR 4.1.5 R.

Information contained elsewhere in the Annual Report

Information required to be included in this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Location in Annual Report
Future developments	Pages 2 to 65
Going concern statement	Page 52
Viability statement	Page 52
Risk management	Pages 49 to 52
Principal risks and uncertainties	Pages 53 to 59
Directors' Governance Statement	Pages 66 to 70
Board of Directors	Pages 72 to 73
Nomination Committee Report	Pages 85 to 88
Audit Committee Report	Pages 76 to 81
Clinical Quality and Safety Committee Report	Pages 82 to 84
Greenhouse gas emissions*	Pages 40 to 48
Research and development	Pages 40 to 48
Employee matters*	Pages 40 to 48
Environmental matters*	Pages 40 to 48
Share capital	Page 158
Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk, foreign currency risk and financial instruments	Pages 165 to 172

* These items constitute a part of the Company's non-financial information provided in compliance with the Companies Act 2006.

Articles of Association

GHG's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The process for the appointment and removal of Directors is included in our Articles of Association. The GHG Articles of Association are available on GHG's website: http://ghg.com.ge/uploads/files/ghgarticles69-66.pdf.

Share capital and rights attaching to the shares

Details of the movements in share capital during the year are provided in Note 25 to the consolidated Financial Statements on page 158 of this Annual Report.

As at the date of this Annual Report, there was a single class of 131,681,820 ordinary shares of one pence each in issue, each with one vote. The rights and obligations attaching to GHG's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and GHG's Articles of Association, to:

- have shareholder documents made available to them including the notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

GHG is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006. Authority was given at the 2018 AGM for the Company to purchase up to 13,168,182 shares but no purchases were made during this financial year. The authority will expire at the conclusion of the Company's AGM in 2019 or if earlier, at the close of business on 30 May 2019.

At the 2018 AGM, the Directors were given the power (a) to allot shares up to a maximum nominal amount of GBP 438,939.40, representing approximately a third of the Company's issued share capital as at 26 March 2018, and b) to allot equity securities up to an aggregate nominal amount of GBP 438,939.40, in connection with an offer by way of a rights issue: (i) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the

Directors' Report continued

right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2019 AGM (or, if earlier, at the close of business on 30 July 2019) and approval will be sought at that meeting to renew a similar authority for a further year.

None of the ordinary shares carry any special rights with regard to control of GHG.

These are no restrictions on transfers of shares other than:
- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing or pursuant to the Group's Inside Information Disclosure Policy;
- pursuant to the Group Securities Dealing Policy and Code, whereby the Directors and designated employees require approval to deal in GHG's shares or cannot deal in certain periods; and
- where a person with an interest in GHG's shares has been served with a disclosure notice and has failed to provide GHG with information concerning interests in those shares.

There are no restrictions on exercising voting rights save in situations where GHG is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to GHG). GHG is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Sanne Fiduciary Services Limited, acting as trustee of the Employee Benefit Trust, has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by GHG.

Results

The Group made a profit before taxation of GEL 53.9 million (year ended 31 December 2017: GEL 46.3 million). The Group's profit after taxation for the year was GEL 53.2 million (year ended 31 December 2017: GEL 45.9 million).

Dividend Policy

GHG may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by GHG's Directors. The Directors may also pay such interim dividends as appear to be justified by the profits of GHG available for distribution. As GHG is a holding company, GHG relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividends to its shareholders.

In November 2018 to March 2019, the Company performed a review of the Company's expected cash generation, considering the performance potential of its businesses, growth opportunities and risks. The objective of the review was to ensure that the Company maintains a capital structure and dividend policy that is consistent with sustainable value creation. Following careful consideration of the outcomes of that review, and as announced on 26 March 2019, the Board has decided to:
- recommend to shareholders at the 2019 Annual General Meeting, a final dividend of GEL 0.053 per share, to be paid in respect of the 2018 financial year. This represents a payout of 20% of 2018 earnings.
- adopt a new dividend policy, beginning with 2019 earnings and until further notice, reflecting our intent that 20% to 30% of annual profit available to shareholders will be distributed as dividends.

Equity settled option plan ("ESOP")

The Company operates an employee benefit trust EBT (the "ESOP"), which holds ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependents, and which is used in conjunction with the Group's employee Share Schemes. Whilst ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBT.

In accordance with the ESOP documentation, Sanne Fiduciary Services Limited has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by GHG. The Group previously committed that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the premium segment of the LSE will not exceed 10% of GHG's ordinary share capital over any ten-year period.

Powers of Directors

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

Conflicts of interest

In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2018. GHG's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law.

Directors' remuneration

Directors' fees are determined by the Remuneration Committee from time to time. The remuneration of Directors must be in accordance with the Directors' Remuneration Policy, which was last approved by shareholders in 2016 and is subject to review and approval at the forthcoming AGM.

The fees paid to the Non-Executive Directors in 2018 are pursuant to their letters of appointment are shown on page 104. The fees paid to our sole Executive Director in 2018 pursuant to his service agreements with GHG are shown on page 100.

Directors' interests

The Directors' beneficial interests in ordinary shares of GHG as at 31 December 2018 are shown on page 105 together with any changes in those interests between the financial year end and the date on which this Directors' Report was approved by the Board.

Indemnity

Subject to applicable legislation, every current and former Director or other officer of GHG (other than any person engaged by the Company as auditor) shall be indemnified by GHG against any liability in relation to GHG, other than (broadly) any liability to GHG or a member of the Group, or any criminal or regulatory fine. In addition, the Company has put in place Directors' and Officers' indemnity insurance.

Related party disclosures

Details of related party disclosures are set out in Note 41 to the consolidated Financial Statements on pages 174 to 175 of this Annual Report.

Significant agreements – change of control

On 23 October 2015, GHG entered into a relationship agreement with BGEO Group PLC and JSC BGEO Investments, which regulates the degree of control that BGEO and its associates may exercise over the management and business of the Group.

Due to the Demerger of the BGEO Group on 29 May 2018, the existing relationship agreement was substituted by an amended version of the relationship agreement (the "Relationship Agreement"), where BGEO Group PLC and JSC BGEO were replaced by Georgia Capital PLC and JSC Georgia Capital respectively (both referred to as "Georgia Capital"). The rest of the terms remained unaltered.

The principal purpose of the Relationship Agreement is to ensure that GHG and its subsidiaries are capable at all times of carrying on their business independently of Georgia Capital and its associates. The Relationship Agreement will continue until the earlier of: (i) GHG shares ceasing to be admitted to listing on the Official List; and (ii) Georgia Capital, together with its associates, ceasing to own or control (directly or indirectly) 20% or more of the voting share capital of GHG. If Georgia Capital ceases to be a controlling shareholder (within the meaning of LR 6.1.2A of the Listing Rules), and continues to exercise control over the votes indicated in clause (ii) above, then it may terminate the Relationship Agreement by giving one month's written notice to GHG.

Under the Relationship Agreement, for so long as Georgia Capital and its associates together hold 20% or more of the voting share capital of GHG, Georgia Capital and its associates shall amongst other things:

- conduct all transactions, agreements or arrangements entered into between: (i) Georgia Capital and its associates, and (ii) GHG or any of its subsidiaries on an arm's length basis and on normal commercial terms and in accordance with the related party transaction rules set out in the Listing Rules;
- not take any action that has or would have the effect of preventing GHG or any of its subsidiaries from complying with their obligations under the Listing Rules;
- not propose or procure the proposal of any resolution of the shareholders (or any class thereof) which is intended, or appears to be intended, to circumvent the proper application of the Listing Rules; and/or
- abstain from voting on any resolution required by LR 11.1.7R(3) of the Listing Rules to approve a transaction with a related party involving Georgia Capital.

The Relationship Agreement entitles Georgia Capital to appoint one person to be a Non-Executive Director of GHG for so long as it (together with its associates) holds at least 20% of the voting share capital of GHG. The Relationship Agreement also provides that (subject to permitted exceptions) neither Georgia Capital nor its associates shall compete with the business of GHG nor use any names associated with GHG and that GHG shall not use any names associated with Georgia Capital or its associates. The Company has complied with the terms of the Relationship Agreement and, in so far as it is aware, Georgia Capital and its associate has complied with the mandatory provisions of the Relationship Agreement during the financial year.

Copies of the existing Relationship Agreement and the expired relationship agreement with JSC BGEO are available to view at the Company's registered office.

At no time during 2018 did any Director hold a material interest in any contracts of significance with GHG or any subsidiary of the Group. The Company is not party to any other significant agreements that would take effect, alter or terminate following a change of control of the Company.

There are no agreements between the Company and any Director or employee that would provide compensation for loss of office or loss of employment that occurs because of a takeover bid. However, under the plans and provisions of the Company's share schemes (including for deferred share salary and discretionary share compensation) and certain service agreements entered into between the Company and the Executives (as described in further detail in the Directors' Remuneration Report) and between the Company and certain senior managers, certain awards granted to the Executive and senior management will vest on a takeover or other change of control.

Presence outside of Georgia

We have our Group office in London: see page 128.

Directors' Report continued

Employee disclosures
Our disclosures relating to the number of women in senior management, employee engagement and our policies on human rights, including employment of disabled persons, are included in the section Employee matters on pages 42 to 44 and in the Nomination Committee Report on page 85 to 88.

Political donations
The Group did not make any political donations or expenditure during 2018. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2019 AGM.

Code of Conduct and Ethics
The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of the business, supported by the Group's core values. The Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Our Code of Conduct is available on our website: http://ghg.com.ge/policies.

Independent auditors
A resolution to reappoint Ernst & Young LLP as auditors of GHG will be put to shareholders at the upcoming AGM.

Major interests in shares
As at 31 December 2018, the following shareholders had notified the Company, in accordance with the Disclosure Guidance and Transparency Rules, of their voting rights of 3% or more which they hold in the Company's issued share capital:

	As of 31 December 2018	
Shareholder	Number of voting rights	% of voting rights
JSC Georgia Capital PLC	131,681,820	57.05
Wellington Management Company	9,680,753	7.35
T. Rowe Price	8,057,579	6.12

From the period 1 January 2019 up to and including 2 April 2019, there have been no further notifications to the Company in respect of interests in voting rights.

Post-balance sheet events
On 26 March 2019, the Company announced its recommendation of a final dividend of GEL 0.053 per share, to be paid in respect of the 2018 financial year, subject to shareholder approval.

For further information, please see the dividend policy section of this report on page 110.

Statement of disclosure of information to the auditor
We confirm that, so far as we are aware, there is no relevant audit information of which the Group's auditors are unaware and we have taken all steps that we reasonably believe should be taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information.

Information to be disclosed in accordance with Listing Rule 9.8.4R
The following information required to be disclosed in terms of Listing Rule 9.8.4R is not applicable unless stated otherwise:
- the amount of interest capitalised during the period under review and details of any related tax relief;
- information in relation to the publication of unaudited financial information;
- details of any long-term incentive schemes;
- any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company;
- details of any non-pre-emptive issues of equity for cash;
- any non-pre-emptive issues of equity for cash by the Company or by any unlisted major subsidiary undertaking;
- parent participation in a placing by a listed subsidiary;
- any contract of significance in which a Director is or was materially interested;
- any waiver of dividends by a shareholder; and
- a statement in respect of relationship agreement with the controlling shareholder appears on page 111.

The Directors' Report on pages 109 to 112 was approved by the Board of Directors on 2 April 2019 and signed on its behalf:

By order of the Board

Link Company Matters Ltd
Company Secretary
2 April 2019

Opinion

In our opinion:

- Georgia Healthcare Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Georgia Healthcare Group plc which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2018	Separate statement of financial position as at 31 December 2018
Consolidated income statement for the year ended 31 December 2018	Separate statement of changes in equity for the year ended 31 December 2018
Consolidated statement of comprehensive income for the year ended 31 December 2018	Separate statement of cash flows for the year ended 31 December 2018
Consolidated statement of changes in equity for the year ended 31 December 2018	Related notes 1 to 42 to the extent they apply to the company financial statements, including a summary of significant accounting policies
Consolidated statement of cash flows for the year ended 31 December 2018	
Related notes 1 to 42 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 53 to 59 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 108 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 52 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 52 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.

Independent Auditor's Report to the Members of Georgia Healthcare Group plc

Overview of our audit approach

Key audit matters	• Risk of fraud in recognition of healthcare, pharma and medical insurance revenue. • Valuation of hospitals and clinics and land and office buildings. • Goodwill impairment.
Audit scope	• We performed an audit of the complete financial information of 3 components and audit procedures on specific balances for a further 1 component. • The components where we performed full or specific audit procedures accounted for 93% of profit before tax and non-recurring items, 96% of revenue and 96% of total assets.
Materiality	• We used a group materiality of GEL 2.8m which represents 5% of profit before tax and non-recurring items.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of fraud in recognition of healthcare, pharma and medical insurance revenue (GEL 846m, 2017: GEL 746m) *Refer to the Audit Committee Report (page 77); Accounting policies (pages 135 and 136) and Notes 26 and 27 of the Consolidated Financial Statements (pages 159 and 160).* Investors' and analysts' expectations of the Company could result in pressure on management to overstate revenue growth. There is a risk that management may override controls through manipulating revenue and hence increasing profit. In 2017 the Group early adopted IFRS15 –Revenue from contracts with customers. There were no material misstatements identified in the prior year audit, however application of IFRS15 remains a high risk area due to the complexity of the standard and relatively little experience in its application. Specific considerations include: • Manual adjustments in respect of long-term treatments and revenue cut-off in GHG's hospital business. • Fictitious retail sales in the pharma business. • Revenue cut-off in the wholesale pharma business. We also considered the cut-off risk in the recognition of gross insurance premiums for the insurance business. There is a risk that management may override control to intentionally misstate revenue transactions, either through recording revenue in the incorrect period in the wholesale pharmaceutical, medical insurance and hospitals business or by recording fictitious transactions in the revenue from retail pharmaceutical business. The risk has remained consistent with the prior year.	Our procedures were performed by component teams and the primary audit team in all full and specific scope components. • We obtained an understanding of the different revenue streams and revenue models across the Group, namely healthcare, pharmaceutical and insurance businesses; • We evaluated the relevant controls in the revenue cycle by assessing the design and testing the operational effectiveness of key controls across all revenue streams subject to our designated fraud risk; • We inspected sales contracts and terms and conditions of a sample of new contracts to confirm that revenue was recognised in a manner consistent with IFRS 15; • We performed test of details on a sample of manual and topside adjustments to revenue, including those adjustments made for long term treatments in the healthcare business by obtaining supporting evidence for the measurement of revenue and the appropriateness of the period in which transactions were recorded; • On a sample basis we audited the completeness and appropriateness of the calculations related to corrections and rebates from the government, by benchmarking the historical average of corrections and rebates to the current year adjustment; • We obtained an understanding of the process followed by management to identify potentially impaired receivable balances in the healthcare business and inspected a sample of invoices not approved by the Government as at 31 December 2018 and tested subsequent settlement; • We performed cut-off testing procedures for a sample of transactions either side of year end; • We selected key items and a representative sample and tested recorded transactions by agreeing revenue details to supporting documentation, and for the revenue from the pharmaceutical business we ran correlation analysis of cash and revenue by using data analytics; • For insurance premiums, we recalculated the unearned premium reserve and related income statement accounts; • We performed analytical procedures by comparing monthly and yearly trends to understand the movements and identify unusual trends in revenue recognition; • We performed journal entries testing based on predetermined criteria to identify and test the risk of misstatement arising from management override of controls; and • We considered whether the presentation and disclosure of revenue in the financial statements is in accordance with IFRS 15 for healthcare and pharmaceutical revenue, and insurance revenue under IFRS 4.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year. In particular, the Group properly applied IFRS 15 for the year ended 31 December 2018. We are satisfied that the disclosures in the financial statements are in accordance with the IFRS.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of hospitals and clinics and land and office buildings (GEL 470m, 2017: GEL 442m) *Refer to the Audit Committee Report (page 76); Accounting policies (page 133); and Note 11 of the Consolidated Financial Statements (page 153).* The Group applies the revaluation model for the measurement of the carrying value of its hospitals and clinics and land and office buildings. Revaluations should be performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Management performed an assessment with reference to price and rent indexes of the real estate market in Georgia and concluded that there were no significant changes in the price level in Georgia's real estate market and accordingly has not revalued the Group's real estate assets at 31 December 2018. The latest revaluation of the Group's real estate was performed at 30 September 2017. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate properties are located in Georgia, where the market for such assets is relatively illiquid, particularly in respect of hospitals and clinics. There is a risk that the carrying value of land, hospitals, clinics and office buildings is materially different from their fair value as at 31 December 2018. The risk has remained consistent with the prior year.	Audit procedures on valuation were performed by the integrated primary team. • We obtained and reviewed management's assessment of changes in the price level in the real estate market in Georgia during 2018; • We verified the third party statistical pricing data provided by management to its source; • We engaged our internal real estate valuation specialists to provide their view on the changes in the real estate market in Georgia during 2018. Based on the commercial real estate market analysis prepared by Colliers for the Ministry of Economy, we were able to corroborate that changes in real estate prices were within a 5% range as compared to 2017; • We checked the USD/GEL foreign exchange rate as it normally has a significant impact on real estate prices in Georgia. We noted there was no significant change in the USD/GEL foreign exchange rate during 2018; • We considered the operating performance of hospitals and clinics and inquired of management about any specific impairment triggers (e.g. destruction due to fire or flood) during 2018; and • We assessed whether the disclosures in the Group Financial Statements appropriately reflect the estimation uncertainty.	Based on the results of our audit procedures, we are satisfied that the carrying value of land, hospitals, clinics and office buildings is not materially different from its fair value as at 31 December 2018. We also have reviewed and concur with the disclosure of significant estimation uncertainty in relation to valuation of land, office buildings, hospitals and clinics presented in Note 4 to the financial statements.

Independent Auditor's Report to the Members of Georgia Healthcare Group plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Goodwill impairment **(Goodwill, GEL 115m, 2017: GEL 115m)** *Refer to the Audit Committee Report (page 76); Accounting policies (page 131); and Note 12 of the Consolidated Financial Statements (page 154).* The group has a significant amount of goodwill allocated to the pharma (GEL 78m), healthcare (GEL 34m) and medical insurance (GEL 3m) businesses, which is tested for impairment annually. There is a risk that these cash generating units ('CGUs') may not achieve the anticipated business performance to support their carrying value, leading to an impairment charge that has not been recognised by management. Significant judgement is required in forecasting the future cash flows of each CGU, together with the rate at which they are discounted. The risk has remained consistent with the prior year.	Audit procedures on goodwill impairment were performed by the integrated primary team, including EY valuation specialists. • We understood the methodology applied by management in performing its impairment test for each of the CGUs and walked through the controls over the process; • We assessed the appropriateness of the valuation methodology applied by management in determining the value in use ('VIU') by comparing with the requirements of IAS 36 Impairment of assets; • We checked the integrity of the discounted cash flow models prepared by management, and tested key assumptions: – validated that the cash flows underpinning the calculation were consistent with the three year strategic plan approved by the Board; – challenged the short and long term growth forecasts, having regard to historical performance and external market data to support the robustness of the forecast process; – engaged our internal valuations specialists to assist with our consideration of the discount rates; and – assessed the adequacy of sensitivity analysis performed by management, stressing each of the above assumptions individually and in combination to reflect what we considered to be reasonably foreseeable changes in the key assumptions. • We validated the appropriateness of the related disclosures in note 4 and note 12 of the financial statements.	We concluded that for each CGU, the recoverable amount of goodwill exceeds its carrying amount. Of the Group's goodwill, the portion relating to the healthcare business remains very sensitive to reasonably possible changes in key assumptions. We consider that: • the allocation of goodwill to CGU is appropriate and in line with the requirements of IAS 36; • the forecasts used are a reasonable basis upon which to perform the impairment assessment; and • the assumptions for the pre-tax discount rate and long-term growth applied by management are within an acceptable range, and are consistent with independent economic forecasts. • the related disclosures provided in the financial statements are appropriate.

Owing to the increase in audit scope, we have expanded the definition of the significant risk around revenue recognition to include revenue from medical insurance. There have been no other changes to our assessment of the risks of material misstatement.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile and changes in the business environment when assessing the level of work to be performed at each entity.

In scoping the audit, we reflect the group's structure (holding company, healthcare services, pharmacy and distribution and medical insurance). In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we performed full or specific scope audit procedures over 4 components covering entities within the United Kingdom and Georgia, which represent the principal business units within the Group.

Of the 4 components selected, we performed an audit of the complete financial information of 3 components ("full scope components") which were selected based on their size or risk characteristics. For another one component ("specific scope component"), we performed audit procedures on specific accounts within the component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. In 2018 the remaining components not subject to full or specific group scoping represent certain entities within the healthcare services segment which are not significant individually or in the aggregate. The size of remaining components ranges from -1.6% to 3.9% of the Group's profit before tax and non-recurring items.

The table below illustrates the coverage obtained from the work we performed:

	2018				2017			
	No.	Revenue	Profit[4]	Total Assets	No.	Revenue	Profit[4]	Total Assets
Full scope[1]	3	89%	86%	89%	3	93%	97%	96%
Specific scope[2]	1	7%	7%	7%	–	–	–	–
Full and Specific scope coverage	4	96%	93%	96%	3	93%	97%	96%
Remaining components[3]		4%	7%	4%	1	7%	3%	4%
Total reporting components	5	100%	100%	100%	4	100%	100%	100%

1. We audited the complete financial information.
2. We audited specific accounts within these components. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.
3. We performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.
4. Profit before non-recurring items and tax.

Changes from the prior year

In 2018 we changed the scope of JSC Insurance Co Imedi L from 'other procedures' to 'specific scope' due to its risk profile and relative size in the Group.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from EY Georgia operating under our instruction. For the two full scope components and the only 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.

During the current year's audit cycle, we held an audit team event led by the Senior Statutory Auditor, where the primary audit team and the component teams considered the audit risk and strategy. The primary audit team continued to follow a programme of planned visits that has been designed to ensure that the audit is executed and delivered in accordance with the planned approach and to confirm the quality of the audit work undertaken. The Senior Statutory Auditor is based in the United Kingdom, but since Group management and operations reside in Georgia, the primary audit team operates as an integrated primary team including members from the United Kingdom and Georgia. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Georgia. The Senior Statutory Auditor visited Georgia six times during the current year's audit and there was regular interaction between team members in the UK and Georgia.

These visits involved discussing the audit approach with the Georgian members of the integrated primary team and the component teams and any issues arising from their work, meeting with Group and local management, attending planning and closing meetings and reviewing key audit working papers on risk areas. The primary team interacted regularly with the component teams throughout the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be GEL 2.8 million (2017: GEL 2.5 million), which is 5% (2017: 5%) of profit before tax and non-recurring items. We believe that profit before tax and non-recurring items best represents the recurring results of the operations of the Group and as such provides us an appropriate basis for determining the nature, timing and extent of further audit procedures.

Starting Basis
- Profit before tax – GEL 53.9m

Adjustments
- Non-recurring items – GEL 2.2m

Materiality
- Totals GEL 56.1m profit before tax and non-recurring items
- Materiality of GEL 2.8m (5% of materiality basis)

Independent Auditor's Report to the Members of Georgia Healthcare Group plc

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% (2017: 50%) of our planning materiality, namely GEL 1.4m (2017: GEL 1.25m). We have set performance materiality at this percentage due to our past experience of the audit that indicate a higher risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was GEL 0.22m to GEL 1.1m (2017: GEL 0.3m to GEL 1.1m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 0.14m (2017: GEL 0.125m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon, including the following sections in the annual report:

- Strategic report set out on pages 2 to 65;
- Governance section, including Directors' Governance Statement, Shareholder Engagement, Board and Senior Management, Nomination Committee Report, Audit Committee Report, Clinical Quality and Safety Committee Report, Remuneration Committee Report, Statement of Directors' Responsibilities and Directors' Report, set out on pages 66 to 112; and
- Additional information, including Abbreviations, Glossary and Shareholder information, set out on pages 176 to 178.

The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 108 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 76 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 66 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 108, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority requirements) and those laws and regulations relating to the provision of healthcare and pharmaceutical services in Georgia.
- We understood how the group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plans targets and their potential to influence management to manage earnings or influence the perceptions of investors.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in above. Our procedures involved: journal entry testing, with a focus on journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, management of business segments; and focused testing as referred to in the Key Audit Matters section above.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the group level.

Independent Auditor's Report to the Members of Georgia Healthcare Group plc

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company and signed the engagement letter on 25 July 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.
- Following the recommendation of the Audit committee, a resolution proposing to reappoint EY will be proposed at the 2019 AGM.
- The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 31 December 2015 to 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Addison (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
2 April 2019

Notes:
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.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Separate Statement of Financial Position

As at 31 December (thousands of Georgian Lari)

	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	7	3,041	7,619
Prepayments		357	305
Investments in subsidiaries	1	404,824	404,824
Total assets		408,222	412,748
Liabilities			
Borrowings	18	9,432	7,852
Accounts payable		201	174
Accruals for employee compensation		52	124
Total liabilities		9,685	8,150
Equity			
Share capital	25	4,784	4,784
Retained earnings*	25	393,753	399,814
Total equity		398,537	404,598
Total equity and liabilities		408,222	412,748

* The Company has not presented its own profit and loss account as permitted by section 408(3) of the Companies Act 2006 (the "Act"). The loss incurred in the Financial Statements of the Company, determined in accordance with the Act, was GEL 7,340 (2017: GEL 5,606).

The Financial Statements on pages 121 to 175 were approved by the Board of Directors of Georgia Healthcare Group PLC on 2 April 2019 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
2 April 2019

Irakli Gogia
Chief Financial Officer
2 April 2019

Company registration number: 09752452

The accompanying notes on pages 128 to 175 form an integral part of these consolidated Financial Statements.

Separate Statement of Changes in Equity

For the year ended 31 December (thousands of Georgian Lari)

		Attributable to the shareholders of the Company		
	Notes	Share capital	Retained earnings	Total equity
1 January 2017		4,784	405,420	410,204
Loss for the period		–	(5,606)	(5,606)
Total comprehensive income		–	(5,606)	(5,606)
31 December 2017		4,784	399,814	404,598
Loss for the period	25	–	**(6,061)**	**(6,061)**
Total comprehensive income		–	**(6,061)**	**(6,061)**
31 December 2018		**4,784**	**393,753**	**398,537**

The accompanying notes on pages 128 to 175 form an integral part of these consolidated Financial Statements.

Separate Statement of Cash Flows

For the year ended 31 December (thousands of Georgian Lari unless otherwise stated)

	Notes	31 December 2018	31 December 2017
Cash flows used in operating activities			
Salaries and other employee benefits paid		(1,958)	(1,980)
General and administrative expenses paid		(2,541)	(2,359)
Other operating expenses paid		(14)	(1,235)
Net cash flows used in operating activities		(4,513)	(5,574)
Cash flows used in investing activities			
Proceeds from amounts due from credit institutions		–	13,863
Net cash used in investing activities		–	13,863
Cash flows from financing activities			
Repayment of borrowings		–	(5,689)
Net cash flows from financing activities		–	(5,689)
Effect of exchange rates changes on cash and cash equivalents		(65)	(160)
Net increase/(decrease) in cash and cash equivalents		(4,578)	2,440
Cash and cash equivalents, beginning	7	7,619	5,179
Cash and cash equivalents, end	7	3,041	7,619

The accompanying notes on pages 128 to 175 form an integral part of these consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 31 December (thousands of Georgian Lari)

	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	7	36,154	48,840
Amounts due from credit institutions	8	11,807	14,768
Insurance premiums receivable	9	23,643	20,233
Receivables from healthcare services	10	106,841	100,944
Receivables from sales of pharmaceuticals		20,440	19,798
Inventory	14	146,164	131,849
Prepayments	15	13,064	30,354
Current income tax assets		1,007	2,026
Investment in associate		3,124	2,745
Property and equipment	11	698,037	642,859
Goodwill and other intangible assets	12	152,298	143,674
Other assets	16	27,927	22,748
Total assets		1,240,506	1,180,838
Liabilities			
Accruals for employee compensation		26,615	21,944
Insurance contract liabilities	17	22,544	20,953
Accounts payable	19	105,092	105,963
Current income tax liabilities		41	72
Finance lease liabilities	22	8,676	8,834
Payables for share acquisitions	21	91,474	98,258
Borrowings	18	296,817	267,010
Debt securities issued	20	93,573	93,493
Other liabilities	23	20,643	15,911
Total liabilities		665,475	632,438
Equity			
Share capital	25	4,784	4,784
Additional paid-in capital	25	4,788	1,708
Treasury shares	25	(134)	(134)
Other reserves	25	(33,335)	(26,866)
Retained earnings		532,091	504,192
Total equity attributable to shareholders of the Company		508,194	483,684
Non-controlling interests		66,837	64,716
Total equity		575,031	548,400
Total equity and liabilities		1,240,506	1,180,838

The Financial Statements on pages 121 to 175 were approved by the Board of Directors of Georgia Healthcare Group PLC on 2 April 2019 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
2 April 2019

Irakli Gogia
Chief Financial Officer
2 April 2019

Company registration number: 09752452

The accompanying notes on pages 128 to 175 form an integral part of these consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December (thousands of Georgian Lari)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Healthcare services revenue	26	291,069	253,612
Revenue from pharma	26	501,090	438,358
Net insurance premiums earned	27	54,147	53,741
Revenue		846,306	745,711
Cost of healthcare services	28	(155,926)	(139,726)
Cost of sales of pharmaceuticals	28	(386,152)	(339,460)
Cost of insurance services and agents' commissions	29	(35,627)	(38,526)
Costs of services		(577,705)	(517,712)
Gross profit		268,601	227,999
Other operating income	30	18,120	21,483
Salaries and other employee benefits	31	(84,509)	(75,430)
General and administrative expenses	32	(54,436)	(48,618)
Impairment of healthcare services, insurance premiums and other receivables	33	(4,448)	(4,175)
Other operating expenses	34	(11,054)	(13,111)
		(154,447)	(141,334)
EBITDA		132,274	108,148
Depreciation and amortisation	11, 12	(33,883)	(25,704)
Interest income	35	1,139	2,111
Interest expense	35	(39,315)	(27,543)
Net losses from foreign currencies and cost of currency derivatives		(4,173)	(5,906)
Net non-recurring expense	36	(2,187)	(4,780)
Profit before income tax expense		53,855	46,326
Income tax expense	13	(616)	(77)
Non-recurring deferred tax expense	13	–	(309)
Profit for the year		53,239	45,940
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods: revaluation of properties	11	–	(4,866)
Total comprehensive income for the year		53,239	41,074
Profit for the year attributable to:			
– shareholders of the Company		34,434	29,110
– non-controlling interests		18,805	16,830
Total comprehensive income for the year attributable to:			
– shareholders of the Company		34,434	24,650
– non-controlling interests		18,805	16,424
Earnings per share (profit for the year):			
– basic earnings per share	25	0.27	0.23
– diluted earnings per share	25	0.26	0.22
Earnings per share (total comprehensive income):			
– basic earnings per share	25	0.27	0.19
– diluted earnings per share	25	0.26	0.19

The accompanying notes on pages 128 to 175 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 share	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
31 December 2016		4,784	(134)	(200)	4,822	476,616	485,888	56,144	542,032
Effect from early adoption of IFRS 15		–	–	–	–	(1,049)	(1,049)	–	(1,049)
1 January 2017		4,784	(134)	(200)	4,822	475,567	484,839	56,144	540,983
Profit for the year		–	–	–	–	29,110	29,110	16,830	45,940
Other comprehensive loss		–	–	–	(4,460)	–	(4,460)	(406)	(4,866)
Total comprehensive income		–	–	–	(4,460)	29,110	24,650	16,424	41,074
Non-controlling interests arising from business combinations		–	–	–	–	(485)	(485)	24,818	24,333
Acquisition of additional interest in existing subsidiaries	25	–	–	–	(27,228)	–	(27,228)	(34,798)	(62,026)
Purchase of treasury shares	25	–	(3)	(1,950)	–	–	(1,953)	–	(1,953)
Investment by non-controlling interest shareholder		–	–	–	–	–	–	2,128	2,128
Share-based compensation	31	–	3	3,858	–	–	3,861	–	3,861
31 December 2017		4,784	(134)	1,708	(26,866)	504,192	483,684	64,716	548,400

		Attributable to the shareholders of the Company							
	Notes	Share capital	Treasury share	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
31 December 2017		4,784	(134)	1,708	(26,866)	504,192	483,684	64,716	548,400
Effect from adoption of IFRS 9	3	–	–	–	–	(6,535)	(6,535)	(492)	(7,027)
1 January 2018		4,784	(134)	1,708	(26,866)	497,657	477,149	64,224	541,373
Profit for the year		–	–	–	–	34,434	34,434	18,805	53,239
Total comprehensive income		–	–	–		34,434	34,434	18,805	53,239
Non-controlling interests arising from business combinations	5	–	–	–	–	–	–	516	516
Acquisition of additional interest in existing subsidiaries	25	–	–	–	(6,469)	–	(6,469)	(3,789)	(10,258)
Purchase of treasury shares	25	–	–	(3,055)	–	–	(3,055)	–	(3,055)
Dividends declared to non-controlling interests by subsidiary		–	–	–	–	–	–	(10,791)	(10,791)
Dilution of non-controlling interest		–	–	–	–	–	–	(2,128)	(2,128)
Share-based compensation	38	–	–	6,135	–	–	6,135	–	6,135
31 December 2018		4,784	(134)	4,788	(33,335)	532,091	508,194	66,837	575,031

The accompanying notes on pages 128 to 175 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 2018	Year ended 31 December 2017
Cash flows from operating activities			
Healthcare services revenue received		269,992	229,871
Cost of healthcare services paid		(152,208)	(138,691)
Revenue from pharma received		500,593	426,672
Cost of sales of pharmaceuticals paid		(401,157)	(342,385)
Net insurance premiums received		51,161	50,251
Net insurance claims paid		(28,141)	(40,035)
Salaries and other employee benefits paid		(79,341)	(75,500)
General and administrative expenses paid		(56,167)	(49,935)
Acquisition costs paid		(2,575)	(3,105)
Other operating income received		5,453	7,319
Other operating expenses paid		(7,190)	(5,891)
Net cash flows from operating activities before income tax		100,420	58,571
Income tax paid		(840)	(332)
Net cash flows from operating activities		99,580	58,239
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired	5	(16,626)	(46,404)
Purchase of property and equipment		(60,986)	(78,468)
Purchase of intangible assets		(10,999)	(15,340)
Loans issued		–	(527)
Interest income received		1,112	2,607
Withdrawals and redemptions of amounts due from credit institutions		4,384	14,940
Placements of amounts due from credit institutions		(4,094)	(5,997)
Proceeds from sale of property and equipment		1,862	441
Net cash used in investing activities		(85,347)	(128,748)
Cash flows from financing activities			
Repurchase of debt securities issued		–	(34,197)
Proceeds from debt securities issued		–	89,011
Proceeds from borrowings		83,241	217,121
Repayment of borrowings		(61,818)	(139,343)
Payment of finance lease liabilities		(736)	(3,110)
Purchase of treasury shares		(3,055)	(1,950)
Dividends paid to non-controlling interests		(9,801)	(553)
Interest expense paid		(34,748)	(30,332)
Net cash flows from financing activities		(26,917)	96,647
Effect of exchange rates changes on cash and cash equivalents		(2)	(537)
Net increase/(decrease) in cash and cash equivalents		(12,686)	25,601
Cash and cash equivalents, beginning	7	48,840	23,239
Cash and cash equivalents, end	7	36,154	48,840

The accompanying notes on pages 128 to 175 form an integral part of these consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Thousands of Georgian Lari unless otherwise stated)

1. Background

As at 31 December 2018 the ultimate parent of the Group companies ("GHG" or "the Group") comprising Georgia Healthcare Group PLC is Georgia Capital PLC ("GCAP"). As at 31 December 2017 the ultimate parent of GHG was BGEO Group PLC ("BGEO"). On 29 May 2018, BGEO Group PLC demerged into two separate companies – Bank of Georgia Group PLC and Georgia Capital PLC, both incorporated in London, England. On the same date GCAP became the ultimate parent of GHG. GCAP's registered legal address is 84 Brook Street, London, W1K 5EH, England. GCAP registration number is 10852406. The remaining 43% is on a free float. GHG's results are included as part of GCAP's financial statements.

The Group's healthcare services business provides medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout Georgia. Its medical insurance business offers a wide range of medical insurance products, including personal accident, term life insurance products bundled with medical insurance and travel insurance policies to corporate and retail clients. The Group's pharmacy and distribution subsidiary, which was acquired in May 2016 and was expanded with JSC ABC Pharmacy acquisition in 2017, offers a wide range of medicines as well as para-pharmacy products to retail and wholesale customers.

The legal address of Georgia Healthcare Group PLC (the "Company") is No. 84 Brook Street, London W1K 5EH, United Kingdom. The Company registration number is 09752452.

As at 31 December 2018 and 31 December 2017 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 2018	31 December 2017
Georgia Capital PLC	57%	–
Wellington Management Company	7%	7%
T Rowe LTD	6%	6%
BGEO Group PLC	–	57%
Others	30%	30%
Total	100%	100%

The Group included the following subsidiaries and associates incorporated in Georgia:

Subsidiary	Ownership/Voting 31 December 2018	Ownership/Voting 31 December 2017	Industry	Date of incorporation	Date of acquisition	Legal address
JSC Georgia Healthcare Group	100%	100%	Healthcare	29-Apr-15	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
JSC GEPHA*	67%	67%	Pharmacy and distribution	19-Oct-95	4-May-16	Beliashvili str. 142, Tbilisi, Georgia
LLC ABC Pharmalogistics	67%	67%	Pharmacy and distribution	24-Feb-04	6-Jan-17	Peikrebi str. 14a, Tbilisi, Georgia
LLC ABC Pharmacia (Armenia)	67%	67%	Pharmacy and distribution	28-Dec-13	6-Jan-17	Kievyan Str. 2/8, Erevan, Armenia
JSC Insurance Company Imedi L	100%	100%	Insurance	1-Aug-14	31-Jul-14	Anna Politkovskaia str. 9, Tbilisi, Georgia
JSC Medical Corporation EVEX	100%	100%	Healthcare	1-Aug-14	1-Aug-14	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
GNCo	50%	50%	Healthcare	4-Jun-01	5-Aug-15	Chavchavadze ave. 16, Tbilisi, Georgia
LLC Nefrology Development Clinic Centre	40%	40%	Healthcare	28-Sep-10	5-Aug-15	Tsinandali str. 9, Tbilisi, Georgia
High Technology Medical Centre, University Clinic	50%	50%	Healthcare	16-Apr-99	5-Aug-15	Tsinandali str. 9, Tbilisi, Georgia
LLC Regional Hospital ****	99.8%	97%	Healthcare	12-Jan-12	30-Jun-15	Kavtaradze str. 23, Tbilisi, Georgia
LLC EVEX-Logistics	100%	100%	Healthcare	13-Feb-15	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Paediatrical Institute, Centre of Allergy and Rheumatology***	–	100%	Healthcare	6-Mar-00	19-Feb-14	Lubliana str. 13, Tbilisi, Georgia
LLC Referral Centre of Pathology	100%	100%	Healthcare	29-Dec-14	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
JSC St. Nicholas Surgery Clinic***	–	97%	Healthcare	10-Nov-00	20-May-08	Paolo Iashvili str. 9, Kutaisi, Georgia
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	67%	67%	Healthcare	5-May-03	29-Nov-11	Djavakhishvili str. 85, Kutaisi, Georgia
LLC Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia	67%	67%	Healthcare	15-Oct-04	29-Nov-11	A Djavakhishvili str. 83A, Kutaisi, Georgia

1. Background continued

Subsidiary	Ownership/Voting 31 December 2018	Ownership/Voting 31 December 2017	Industry	Date of incorporation	Date of acquisition	Legal address
LLC Tskaltubo Regional Hospital	**67%**	67%	Healthcare	29-Sep-99	29-Nov-11	Eristavi str. 16, Tskhaltubo, Georgia
LLC Unimedi Achara***	–	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Unimedi Samtskhe***	–	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Unimedi Kakheti***	–	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
NCLE EVEX Learning Centre	**100%**	100%	Other	20-Dec-13	20-Dec-13	Javakhishvili str. 83a, Tbilisi, Georgia
LLC M. Iashvili Children Central Hospital***	–	100%	Healthcare	3-May-11	19-Feb-14	Lubliana Str. 2/6, Tbilisi, Georgia
LLC Catastrophe Medicine Paediatric Centre	**100%**	100%	Healthcare	18-Jun-13	1-Mar-15	U. Chkeidze str. 10, Tbilisi, Georgia
LLC Emergency Service**	–	–	Healthcare	28-Jul-09	20-May-16	D. Uznadze str. 2, Tbilisi, Georgia
JSC Poti Central Clinical Hospital***	–	100%	Healthcare	29-Oct-02	1-Jan-16	Guria str. 171, Poti, Georgia
JSC Patgeo	**100%**	100%	Healthcare	13-Jan-10	1-Aug-16	Mukhiani, II mcr. District, Building 22, 1a, Tbilisi, Georgia
JSC Pediatry	**76%**	76%	Healthcare	5-Sep-03	6-Jul-16	U. Chkeidze str. 10, Tbilisi, Georgia
JSC Mega Lab	**100%**	100%	Healthcare	6-Jun-17	Not Applicable	Petre Kavtaradze str. 23, Tbilisi Georgia
LLC EVEX-Collection	**100%**	100%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Ivane Bokeria Referral Hospital***	–	100%	Healthcare	16-Mar-17	Not Applicable	Kindzmarauli Str. 1 lane. #1, Tbilisi, Georgia
LLC New Clinic	**100%**	100%	Healthcare	3-Jan-17	20-Jul-17	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Aliance Med	**100%**	100%	Healthcare	7-Jul-15	20-Jul-17	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Medical Center Almedi	–	100%	Healthcare	27-Sep-13	8-Nov-17	Tabukashvili str. 17, Tbilisi, Georgia
JSC Polyclinic Vere	**97.8%**	97.8%	Healthcare	22-Nov-13	25-Dec-17	Kiacheli str. 18-20, Tbilisi, Georgia
LLC New Dent	**100%**	–	Healthcare	24-Dec-18	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
JSC Vabaco	**67%**	–	Software development	9-Sep-13	28-Sep-18	Bochorishvili str. 37, Tbilisi, Georgia

Associate	Ownership/Voting 31 December 2018	Ownership/Voting 31 December 2017	Industry	Date of incorporation	Date of acquisition	Legal address
LLC Geolab	–	25%	Healthcare	3-May-11	5-Aug-15	Tsinandali str. 9, Tbilisi, Georgia
LLC 5th Clinical Hospital	**35%**	35%	Healthcare	16-Sep-99	4-May-16	Temka, XI mcr. Block 1, N 1/47, Tbilisi, Georgia
NPO Healthcare Association	**25%**	33%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 27b, Tbilisi, Georgia

* JSC GPC was renamed as JSC GEPHA in February 2017 and was merged with JSC ABC Pharmacy on 5 May 2017.

** The Group has de-facto control of the subsidiary. To make decision about consolidation of entities under de-facto control the Group must have power over an investee that gives the investor the current ability to direct an investee's relevant activities. Under IFRS 10, an option can give an investor the current ability to direct an investee's relevant activities without regard to when it is exercisable. To assesses existence of such ability, the Group considered the following factors as outlined in the MOU:

a) The Group appointed a supervisory board to handle emergencies. Board members were appointed for a four-year period (i.e. inclusive of the option exercise period). In accordance with MOU, supervisory board members guide all key activities of emergencies and make all strategic decisions.
b) Emergency assumed responsibility not to pay any dividends until the Group acquires the company.
c) Current shareholders cannot sell their shares to any third party or pledge under any facility without written consent from EVEX.
d) CEO of Emergency is appointed by EVEX.

*** Subsidiaries were merged with JSC Medical Corporation EVEX in 2018 (the Group purchased non-controlling interest in JSC St. Nicholas Surgery Clinic and it became 100% shareholder of the entity before the merger).

**** LLC Deka was renamed as LLC Regional Hospital in January 2018.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

1. Background continued

Material partly owned subsidiaries

The following subsidiary has material non-controlling interest:

	2018		
	Ownership rights held by non-controlling interests, %	Profit allocated to non-controlling interests during the year	Dividends paid to non-controlling interests during the year
JSC GEPHA	33	14,978	9,801

	2017		
	Ownership rights held by non-controlling interests, %	Profit allocated to non-controlling interests during the year	Dividends paid to non-controlling interests during the year
JSC GEPHA	33	11,173	553

JSC GEPHA's accumulated non-controlling interest balance is zero due to the put option on (Note 25).

The summarised financial information of these subsidiaries is presented below. This information is based on amounts before inter-company eliminations.

JSC GEPHA	31 December 2018	31 December 2017
Total assets	285,477	248,421
Total liabilities	154,331	128,749
Equity	131,146	119,672

JSC GEPHA	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue	518,578	450,315
Total comprehensive income for the year	45,389	39,247

Net cash flows from operating activities	32,755	16,201
Net cash flows from investing activities	4,967	(39,511)
Net cash used in financing activities	(31,781)	31,276
Net increase in cash and cash equivalents	**5,941**	**7,966**

2. Basis of preparation

Basis of preparation

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the stand-alone Income Statement of the Company is not presented as part of these accounts.

The Company's and Group's consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC") interpretations endorsed by the European Union ("EU"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. The consolidated Financial Statements have been prepared on a historical cost basis, except for investment properties, land and office buildings and hospitals and clinics classified as property and equipment and derivative financial instruments that have been measured at fair value. These consolidated financial statements have been presented in thousands of Georgian Lari ("GEL"), except otherwise stated.

Going concern

GHG's Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the approval of the Financial Statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

3. Summary of significant accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of the annual consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated Financial Statements for the year ended 31 December 2017 apart from IFRS 9 as presented below.

Basis of consolidation

The consolidated Financial Statements comprise the financial statements of GHG and its subsidiaries as at 31 December 2018. 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.

3. Summary of significant accounting policies continued

Basis of consolidation continued

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 re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Statement of Comprehensive Income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in other operating expenses.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and amounts due from credit institutions that mature within three months from the date of origination, that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and are free from contractual encumbrances.

Receivables from healthcare services; receivables from sales of pharmaceuticals

Receivables from healthcare services and receivables from sales of pharmaceuticals are recognised initially at the transaction price deemed to be fair value at origination date. They are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The carrying value of healthcare receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated profit or loss. Receivables from the state are due within 30 working days upon approval of invoices. Invoice review and approval process takes up to 60 working days according to Georgian legislation. Payment terms for parties other than the state are negotiated individually and range between 30 to 180 calendar days.

Financial assets

Financial assets in the scope of IFRS 9 are classified either as measured at fair value or measured at amortised cost, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. The classification depends on the purpose for which the investments were acquired or originated.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These investments are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

As part of its risk management, the Group uses foreign exchange option and forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from the derivative contracts are included in the consolidated profit or loss in net gains/(losses) from foreign currencies.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in the consolidated profit or loss.

Carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

Derecognition of financial instruments

Financial assets

A financial asset (or, if applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the following conditions are met:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its right to receive cash flows from the asset, or retained the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset that is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Borrowings

A borrowing is derecognised when the obligation under the liability is discharged or cancelled or expires and if its terms are substantially modified.

Offsetting

Financial assets and liabilities are offset, and the net amount is reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation. The Group has not offset any of its assets and liabilities or income and expenses.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance premiums receivables

Insurance premiums receivable are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated profit or loss.

Insurance contract liabilities

The unearned premium reserve ("UPR") is recognised when contracts are entered into and premiums are charged and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date the carrying amount of UPR is calculated on active policies based on the insurance period and time until the expiration date of each insurance policy. The Group reviews its unexpired risk based on the historical performance of separate business lines to determine the overall change in claims reported but not settled ("RBNS") and claims incurred but not reported yet ("IBNR"). The change of UPR, RBNS and IBNR are recognised in the consolidated profit or loss by setting up a provision for premium deficiency.

3. Summary of significant accounting policies continued

Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalised costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortised on a straight line basis over the life of the contract.

Fair value measurement

At each reporting date, the Group revalues its derivative financial instruments. The Group also estimates fair value of its land and office buildings and hospitals and clinics according to its accounting policy. Fair values of financial instruments measured at amortised cost are disclosed in Note 40.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Property and equipment

Property and equipment except for land and office buildings and hospitals and clinics are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Hospitals and clinics category comprises buildings and related land where referral hospitals, community hospitals and ambulatory clinics are placed.

The carrying values of property and equipment classes carried at cost are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated profit or loss as other operating expense.

Following initial recognition at cost, land and office buildings and hospitals and clinics are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough (market value changes are monitored at least once in a year and revaluation is done at least once in every three years) 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
Leasehold improvements	10
Furniture and fixtures	5-10
Medical equipment	5-10
Computers	5
Motor vehicles	5

The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation. An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated profit or loss in the period the asset is derecognised.

An asset under construction comprises costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are required to bring an asset to location and position necessary for intended use by the management. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use. Leasehold improvements are depreciated over the shorter of ten years or the life of the related leased asset. The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each financial year-end.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Hedge accounting

The Group has adopted fair value hedge accounting in accordance with IFRS 9 for foreign exchange component of two of its fixed assets. Due to a strong correlation between real estate prices in Lari terms and US$:GEL exchange rates published by the National Bank of Georgia, holding other factors constant, we designated US$-denominated borrowings as a hedging instrument and the foreign exchange component of the fixed asset price change as the hedged item. The Group continues to assess hedge effectiveness on a quarterly basis.

If hedge effectiveness conditions will hold and the hedge is found to be effective any increase (decrease) in the value of hedged real estate caused by changes in US$ exchange rate will be offset by an equivalent increase (decrease) of US$-denominated borrowing. If the hedge is found to be partially ineffective, to the extent these amounts differ, a net amount is recognised in profit or loss, in net (losses)/gains from foreign currencies. The recognition of the latter difference is commonly referred to as the measurement of hedge ineffectiveness. As at 31 December 2018 fair value of financial instruments designated as hedging instruments equalled GEL 15,307 (2016: GEL 15,629).

Investments in subsidiaries

For the purposes of Parent Company Financial Statements investments in subsidiaries are carried at cost less any provision for impairment. Dividends from subsidiaries are recognised in the Parent Company Financial Statements when the Parent's right to receive the dividend is established.

Investment in associates

The Group's investment in its associate is accounted for using the equity method.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within "Share of profit of an associate" in the Statement of Profit or Loss. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Inventory

Inventory comprises medical supplies and non-medical supplies and is valued at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis in the healthcare services segment and first in first out basis ("FIFO") in the pharma segment and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated profit or loss when the borrowings are derecognised as well as through the amortisation process.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of such asset. All other borrowing costs are expensed in the year in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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.

3. Summary of significant accounting policies continued

Intangible assets
Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of such assets of between four to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Provisions and contingent liabilities
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as an asset but only when it is virtually certain that it will be received.

Share-based compensation transactions
Senior executives of the Group receive share-based compensation, whereby employees render services as consideration for the equity instruments of GHG. Share-based compensation plans announced by GHG represent equity-settled transactions.

Equity
Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date of the transaction. The cost of equity-settled transactions is recognised together with the corresponding increase in additional paid-in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated profit or loss charge for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Share capital
Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends
Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed by the board to shareholders before the reporting date or proposed by the Board to shareholders or declared after the reporting date but before the Financial Statements are authorised for issue.

Income and expense recognition
Interest income
For all financial assets measured at amortised cost, interest income is recorded using the effective interest rate ("EIR"). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the Statement of Profit or Loss.

Healthcare services revenue and revenue from pharma
The Group recognises revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Healthcare services that the Group provides to the clients are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Healthcare services revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and include the following components:

- Healthcare services revenue from state – The Group recognises the revenue from the individuals who are insured under the state programmes by reference to the stage of completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare services revenue from insurance companies – The Group recognises revenue from the individuals who are insured by various insurance companies by reference to the stage of completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare services revenue from out-of-pocket and other – The Group recognises out-of-pocket and other revenue by reference to the stage of completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognised in the accounting period in which the services are rendered and are calculated according to contractual tariffs.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Income and expense recognition continued

Healthcare services revenue and revenue from pharma continued
Revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state). Invoice corrections are estimated at contract inception. The estimation of potential future corrections and rebates is calculated based on statistical average correction rate which is applied to gross amount of invoices that were not approved by the state as at reporting date. The Group's gross revenue (before deducting its corrections and rebates) is based on the official invoices submitted to and formally accepted by the customers (state, insurance companies, provider clinics and individuals) and accruals for already performed but not yet billed service.

Revenue from pharma comprises the fair value of the consideration received or receivable both from wholesale and retail sales and medicine exchange transactions. The pharma business sometimes sells medicine in barter transactions. The consideration received is assessed with reference to its actual wholesale price which is deemed fair value of consideration received.

Customer loyalty programme points accumulated in the pharma business are treated as deferred revenue and recognised in revenues gradually as they are earned, as loyalty programme offered within the pharma business gives rise to a separate performance obligation. At reach reporting date the Group estimates portion of accumulated points that is expected to be utilised by customers based on statistical data. Those points are treated as a liability in the Statement of Financial Position and are only recognised in revenues when points are used by customers.

Net insurance premiums earned
Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business commenced during the period and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a period that relate to periods after the reporting date. Unearned premiums are computed on monthly pro rata basis.

Unearned premium reserve
The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the unearned premium reserve is taken to the consolidated profit or loss in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Cost of healthcare services and cost of sales of pharmaceuticals
Cost of healthcare services represents expenses directly related to the generation of revenue from healthcare services rendered, including but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs. Cost of sales of pharmaceuticals represents cost of sold medicine calculated using FIFO.

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 income or expense triggered by or originated from an unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Foreign currency translation
The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency and functional currency of all the Group's components. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official exchange rates declared by the National Bank of Georgia ("NBG") and effective as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated profit or loss within net losses from foreign currencies.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in net losses from foreign currencies in the consolidated profit or loss. The official NBG exchange rates at 31 December 2018 and 31 December 2017 were 2.6766 and 2.5922 Georgian Lari to 1 US dollar, respectively.

New and amended standards and interpretations
The standards and interpretations relevant to the Group that are issued up to the date of issuance of the Group's Financial Statements are disclosed below. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The Group applies, for the first time, IFRS 9 Financial Instruments. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the annual condensed consolidated Financial Statements of the Group. As required by IAS 34, the nature and effect of these changes are disclosed below.

3. Summary of significant accounting policies continued

New and Amended Standards and Interpretations continued

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group adopted the new standard on the required effective date and has not restated comparative information.

(a) Classification and measurement

Classification and measurement requirements of IFRS 9 have no significant impact on GHG's Statement of Financial Position or equity on applying the classification. The Group continues measuring at amortised cost all financial assets and liabilities except for derivative financial instruments and payables for share acquisitions that are measured at fair value. These items include: cash and cash equivalents, amounts due from credit institutions, pharmacy and distribution and healthcare receivables, loans issued, borrowings, debt securities issued and accounts payable.

Loans as well as healthcare and pharma receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. The Group applies the simplified approach and records lifetime expected losses on all receivables, loans and contract assets.

The primary impact of adoption of the new impairment methodology was on the following two accounts: allowance on receivables from healthcare services and allowance on receivables from sales of pharmaceuticals.

Cash and cash equivalents and amounts due from credit institutions

Due to the short-term and highly-liquid nature of these financial assets, the Group has assessed corresponding credit losses to be immaterial. Therefore, no impairment was recognised for cash and cash equivalents and amounts due from credit institutions under IFRS 9.

Healthcare and Pharma receivables

In applying the simplified impairment approach under IFRS 9, the Group implemented four different assessment methods based on type of receivables:

- individual assessment for receivables from Government;
- individual assessment for all other material receivables (with a balance above GEL 250 thousand);
- individual assessment for barter receivables in the pharmacy and distribution business; and
- collective assessment for all other receivables. Receivables with shared credit risk characteristics are combined in different portfolios for collective assessment. The Group has identified the following main types of portfolios (with a balance less than GEL 250 thousand): receivables from healthcare services (mainly receivables from individuals), receivables from sale of pharmaceuticals, rent receivables and other receivables.

Receivables from Government

JSC Medical Corporation EVEX ("EVEX") participates in the Georgian state insurance programme, UHC. As a result, a significant part of receivables from healthcare services (approximately 70%) is due from the Georgian Government and municipal authorities. On the other hand, JSC GEPHA ("GEPHA") participates in UHC's tenders, supplying medicaments to different clinics. In addition, Georgian Government co-pays the price of certain medicines to individuals covered by the UHC. Therefore, a considerable part of receivables from sales of pharmaceuticals (approximately 15%) are also due from the Georgian Government. Receivables from Government have unique credit characteristics, which are different from those of any other financial instrument currently owned by the Group. Considering this fact and materiality of corresponding balance, the Group has concluded that receivables from Government should be considered for impairment on an individual basis, separately from all other financial instruments.

The Group uses credit ratings published by international agencies, such as Standard & Poor's ("S&P") or Moody's, in order to assess credit quality of state receivables. Similarly, the probabilities of default to the respective category of credit rating assigned to Georgia based on reports by the same international agencies are used as a reasonable approximation of probability of default ("PD") for receivables from Government. PD for receivables from Government was based on the country's risk-rating. The Group will reconsider the PD rate used in the impairment calculations at each reporting date.

Individually assessed debtors

For debtors a with receivable balance above GEL 250 thousand, the Group considers each case individually and takes into account various factors and individual circumstances. This process consists of two main stages:

- Counterparty's financial position is assessed based on: a) financial results and ratios (when available); b) average receivable overdue days to the Group; and c) any other non-financial information available to the Group, such as any news relevant to market sector in which particular debtor operates, management inquiries, etc.
- Based on this analysis, counterparty is then categorised by the Group's management for credit risk assessment and moved to collective assessment. Each credit category is assigned with corresponding expected credit loss rate, determined based on experience, management's professional judgement and expectations for the future. Assessments are performed on a quarterly basis. Macro-adjustments are incorporated based on regression results and dependency factor on GDP growth. Financial ratios in this model are updated on an annual basis, after/if audited financial statements of the counterparty are published, while average overdue days, non-financial information and expectations for the future are updated monthly.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

New and Amended Standards and Interpretations continued

IFRS 9 Financial Instruments continued

(b) Impairment continued

Barter receivables in pharmacy and distribution business

GEPHA participates in barter transactions by supplying goods and services in exchange for receiving other goods and services from the counterparty. Both receivables and payables arise as a result of these transactions, but settlement is made on a net basis as required by corresponding contracts. Therefore, in assessing barter receivables for impairment the Group takes into account only net exposure from any individual counterparty, i.e. part of receivables in excess of payables to the same counterparty. These exposures are then assessed for impairment under IFRS 9 in the same manner as described in the preceding section for individually assessed debtors.

Collective assessment

For the purposes of implementing collective impairment assessment of receivables from insurance companies and other large counterparty entities under IFRS 9, debtor portfolios are segregated into distinct risk buckets based on number of overdue days. In defining 180 days as a cut-off period for default definition, the Group considered actual payment history of insurance companies and other large counterparty entities. Overdue of three to six months was usual among creditworthy counterparties, while more than a six-month period marked the sign for financial trouble. The statistics were based on the Group's internal data. Five separate risk buckets were implemented as presented below:

Overdue days	Category	Description
0-30	AA	Excellent
31-60	A	Good
61-90	B	Normal
91-180	C	Bad
181+	D	Default

As for collective impairment assessment of receivables from individuals and other small counterparties, the Group has five separate risk buckets as presented below:

Overdue days	Category	Description
0-29	A	Good
30-59	B	Normal
60-89	C	Bad
90+	D	Default

IFRS 9 allows an entity to use a simplified "provision matrices" for calculating expected losses as a practical expedient (e.g., for receivables), consistent with the general principles for measuring expected losses. However, IFRS 9 also requires incorporating forward-looking information in the entity's impairment framework.

The Group has decided to use this option and utilise provision matrices in estimation of ECLs in case of collective assessment of impairment. As mentioned above, the Group adopted the simplified approach for receivables and directly considers life-time losses for the entire portfolio i.e. expected lifetime credit losses will be recognised for the entire portfolio regardless whether or not significant increase in credit risk occurred since initial recognition. A migration matrix was used as a base for determination of probability of defaults by categories. Exposure at default was defined as the outstanding balance of debtor exposure.

Forward-looking component

Additionally, the Group incorporated macroeconomic forward-looking information in the analysis to determine adjusted default probabilities by categories. Considering the fact that debtors in healthcare service and pharmacy and distribution businesses mainly consist of individuals or small entities from widely diverse regions from Georgia, the Group believes that country-wide economic performance measure is good fit for the purposes of expected performance evaluation of the individually small debtors from all over the country. As such, real GDP growth rate was assessed to be the best macro-economic indicator on two arguments:

- GDP growth rate is the single most important economy performance indicator that is closely tied to actual well-being of the citizens and small entities; and
- GDP growth rate is easily obtainable and has both, consistent historical records as well as state forecast for coming years enabling to incorporate in the expected credit loss modelling. The Group regressed GDP growth rates over the past two years on impairment rates (which is the same as Probability of Default ("PD") assuming 100% Loss Given Default ("LGD"); and found a statistically significant dependency factor.

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 did not have a significant impact on Group's Financial Statements.

3. Summary of significant accounting policies continued

New and Amended Standards and Interpretations continued

IFRS 9 Financial Instruments continued

Adoption effect

In total, due to the unsecured nature of the Group's receivables, the loss allowance increased by GEL 7,027 at the transition date, which was 1 January 2018. The effect of adopting IFRS 9 is, as follows:

	Original carrying amount under IAS 39 as at 1 January 2018	Remeasurement amount	New carrying amount under IFRS 9 as at 1 January 2018
Assets			
Receivables from healthcare services	118,281	–	118,281
Less – Allowance for impairment	(17,337)	(5,535)	(22,872)
Receivables from healthcare services, net	100,944	(5,535)	95,409
Receivables from sales of pharmaceuticals	19,798	–	19,798
Less – Allowance for impairment	–	(1,492)	(1,492)
Receivables from sale of pharmaceuticals, net	19,798	(1,492)	18,306
Equity			
Retained earnings	504,192	(6,535)	497,657
Non-controlling interests	64,716	(492)	64,224

Write-off policy

The Group writes-off financial assets when it becomes aware that there is no reasonable expectation of recovery based on the pre-determined indicators. These indicators are the bankruptcy of the counterparty, court decision or more than two years of overdue period. Any receivable that has not been ruled by the court to be uncollectible, are continued to be enforced by the Company regardless the number of overdue days. In accordance with Georgian legislation, due to statute of limitation, GHG is unable to enforce collection of receivables if 3 years from the date of last written reminder to the counterparty have passed.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The Group opted a temporary exemption from applying IFRS 9.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This interpretation does not have any impact on the Group's consolidated Financial Statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated Financial Statements.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated Financial Statements.

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

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity, associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do 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

New and Amended Standards and Interpretations continued

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

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group has chosen not to retrospectively apply IFRS 16 on transition. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain motor vehicles that are considered of low value. During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the Consolidated Statement of Financial Position as at 1 January 2019:

Assets	
Property and equipment (right-of-use assets)	76,172
Liabilities	
Finance lease liabilities	76,172
Net impact on equity	–

Estimated impact on the Consolidated Statement of Comprehensive Income for 2019:

Operating lease expense (included in general and administrative expenses)	19,757
EBITDA	19,757
Depreciation	(17,406)
Interest expense	(5,045)
Profit for the year	(2,694)

Due to the adoption of IFRS 16, the Group's EBITDA will increase, while its interest expense and depreciation expense will increase. Net negative impact on profit for the year will equal GEL 2,694.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts ("IFRS 17"), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts ("IFRS 4") that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

3. Summary of significant accounting policies continued

Standards Issued but not yet effective continued

IFRS 17 Insurance Contracts continued

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with restated comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group will apply these amendments when they become effective. The Group is in the process of assessing the impact of IFRS 17.

IFRIC Interpretation 23 Uncertainty over income tax treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will make an assessment and apply the interpretation from its effective date if applicable.

Amendments to IFRS 9: Prepayment features with negative compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the "SPPI criterion") and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated Financial Statements of the Group.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. This standard is not applicable to the Group.

Amendments to IAS 19: Plan amendment, curtailment or settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments or settlements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated Financial Statements.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies continued

Standards issued but not yet effective continued

Annual Improvements 2015-2017 Cycle (issued in December 2017)
These improvements include:

IFRS 3 Business Combinations
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

IAS 12 Income Taxes
An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated Financial Statements.

IAS 23 Borrowing Costs
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated Financial Statements.

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.

Goodwill impairment test

Significant accounting judgements and estimates related to goodwill impairment test are presented in Note 12.

Impairment of receivables from pharma and healthcare services

The loss allowance for receivables from pharma and healthcare services is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. A key criterion for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (i.e. the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of impairment. If yes, then the proper provision rate is applied, which reflects the credit risk associated with that particular category of debt services. If not, then the respective accounts receivable are assessed collectively, as a good quality, in a total pool for the good credit quality receivables, based on loss given default and the number of days overdue, which practically implies an immaterial amount of overdue days.

For collective assessment purposes the management judgement is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. Assessments are updated by the Group at each reporting date. Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance for impairment of the healthcare receivables as at 31 December 2018 was GEL 19,189 (2017: GEL 17,337). Refer to Note 10.

The Group adopted IFRS 9 from 1 January 2018, the impact on allowance for receivables from healthcare services, as well as on allowance for receivables from sale of pharmaceuticals is discussed in Note 3.

4. Significant accounting judgments and estimates continued

Valuation of land, office buildings, hospitals and clinics

The fair value of land, office building, hospitals and clinics included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the market and discounted replacement cost ("DRC") approaches. The Group performs valuation of its office buildings and hospitals and clinics at least once in every three years, unless there is a sign of material change in fair values on the market. Last valuation of hospitals and clinics was performed on 1 October 2017 by Georgian Valuation Company. Results of this valuation are presented in Note 11, while valuation inputs and techniques are presented in Note 40. The estimates described above are subject to change as new transaction data and market evidence become available. According to the Management's assessment of market and internal data available since last revaluation date up to 31 December 2018, there have been no significant change in qualitative or quantative factors affecting the fair value of the Group's land, office buildings, hospitals and clinics.

Current income tax recognition

The current income tax charge is calculated in accordance with Georgian legislation enacted or substantively enacted by the reporting date. The Group's main business activities are operated under tax on distributed profits regime, meaning that there is no tax on retained earnings starting from 2017 for healthcare and pharma segments and from 2023 for insurance segment. Further details on taxation are disclosed in Note 13.

Claims reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date (RBNS) and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. The carrying amount of the reserves for claims ("RBNS" and "IBNR") as at 31 December 2018 was GEL 3,253 (2017: GEL 3,102). Refer to Note 17.

5. Business combinations

Acquisitions in year ended 31 December 2018

JSC Vabaco

On 27 September 2018 JSC Georgia Healthcare Group ("Acquirer") acquired 67% of JSC Vabaco ("Vabaco") shares from individual investors. JSC Vabaco is a software service company in Georgia.

The fair values of identifiable assets and liabilities of Vabaco as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	22
Property and equipment	20
Intangible assets	1,992
Other assets	20
Total assets	**2,054**
Liabilities	
Accounts payable	157
Accruals for employee compensation	201
Other liabilities	132
Total liabilities	**490**
Total identifiable net assets	**1,564**
Non-controlling interests	516
Goodwill arising on acquisition	–
Consideration[1]	**1,048**

1 Consideration comprised GEL 1,048, which has been fully paid as at reporting date.

Net cash outflow for the acquisition was as follows:

Cash paid	1,048
Cash acquired with the subsidiary	(22)
Net cash outflow	**1,026**

By acquiring Vabaco the Group gets full access to the software and future potential for development and tailoring to the Group's business needs and extraction benefits from high quality systems. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Vabaco has recorded GEL 61 and GEL 12 of revenue and profit, respectively. For the year ended 31 December 2018 revenue and profit of the acquired entity were GEL 365 and GEL 42, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 846,671 and GEL 53,281 of revenue and profit, respectively.

The Group has elected to measure the non-controlling interests in Vabaco at the non-controlling interests' proportionate share of Vabaco's identifiable net assets.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

5. Business combinations continued

Acquisitions in year ended 31 December 2017

LLC Medical Center Almedi

On 8 November 2017 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group acquired 100% of LLC Medical Center Almedi ("MCA") shares from individual investors. LLC Medical Center Almedi is a healthcare company operating in Georgia.

The fair values of identifiable assets and liabilities of MCA as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property and equipment	86
Intangible assets	3
Total assets	89
Liabilities	
Borrowings	103
Accounts payable	12
Current income tax liabilities	18
Other liabilities	7
Total liabilities	140
Total identifiable net assets	(51)
Non-controlling interests	–
Goodwill arising on acquisition	951
Consideration[1]	900

1 Consideration comprised GEL 900, which consists of cash payments of GEL 700 and a holdback amount with a fair value of GEL 200.

Net cash outflow for the acquisition was as follows:

Cash paid	700
Cash acquired with the subsidiary	–
Net cash outflow	700

The Group decided to increase its presence and investment in the regional healthcare market by acquiring MCA. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, MCA has recorded GEL 230 and GEL 50 of revenue and profit, respectively. For the year ended 31 December 2017 revenue and profit of the acquired entity were GEL 609 and GEL 72, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 746,089 and GEL 45,954 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. Besides, the management believes there are potential upsides in material expenses and salary costs due to centralisation of procurement of inventories and administrative function, including HR and accounting. For tax legislation purposes goodwill is recognised on a stand-alone statement of financial position 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 Statement of Financial Position. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

5. Business combinations continued

Acquisitions in year ended 31 December 2017 continued

JSC Polyclinic Vere

On 25 December 2017 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group acquired 97.8% of JSC Polyclinic Vere ("Vere") shares from individual investors. JSC Polyclinic Vere is a healthcare company operating in Georgia.

The fair values of identifiable assets and liabilities of Vere as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property and equipment	259
Total assets	**259**
Liabilities	
Accounts payable	93
Accruals for employee compensation	99
Other liabilities	97
Total liabilities	**289**
Total identifiable net assets	**(30)**
Non-controlling interests	49
Goodwill arising on acquisition	2,211
Consideration[1]	**2,230**

1 Consideration comprised GEL 2,230, which consists of cash payments of GEL 649 and a holdback amount with a fair value of GEL 1,581.

Net cash outflow for the acquisition was as follows:

Cash paid	649
Cash acquired with the subsidiary	–
Net cash outflow	**649**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Vere. Management considers that the deal will have a positive impact on the value of the Group.

For the year ended 31 December 2017 revenue and loss of the acquired entity were GEL 1,903 and GEL 40, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 747,613 and GEL 45,891 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. In addition, the management believes there are potential upsides in material expenses and salary costs due to centralisation of procurement of inventories and administrative function, including HR and accounting. For tax legislation purposes goodwill is recognised on a stand-alone statement of financial position 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 Statement of Financial Position. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

5. Business combinations continued

Acquisitions in year ended 31 December 2017 continued

LLC New Clinic

On 20 July 2017 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, acquired 100% of the shares of LLC New Clinic ("NC"), a healthcare company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of NC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property and equipment	1,953
Total assets	**1,953**
Liabilities	
Accounts payable	3
Accruals for employee compensation	75
Other liabilities	6
Total liabilities	**84**
Total identifiable net assets	**1,869**
Non-controlling interests	–
Goodwill arising on acquisition	4,781
Consideration[1]	**6,650**

1 Consideration comprised GEL 6,650, which consists of cash payment of GEL 6,535 and a holdback amount with a fair value of GEL 115.

Net cash outflow for the acquisition was as follows:

Cash paid	6,535
Cash acquired with the subsidiary	–
Net cash outflow	**6,535**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring NC. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, NC has recorded GEL 2,302 and GEL 996 of revenue and profit, respectively. For the year ended 31 December 2017 revenue and profit of the acquired entity were GEL 4,832 and GEL 1,648, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 748,241 and GEL 46,584 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. In addition, the management believes there are potential upsides in material expenses and salary costs due to centralisation of procurement of inventories and administrative function, including HR and accounting. For tax legislation purposes goodwill is recognised on a stand-alone statement of financial position 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 Statement of Financial Position. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

5. Business combinations continued

Acquisitions in year ended 31 December 2017 continued

LLC Aliance Med

On 20 July 2017 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, acquired 100% of the shares of LLC Aliance Med ("AM"), a healthcare company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of NC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	4
Property and equipment	737
Receivable from healthcare services, net	460
Total assets	**1,201**
Liabilities	
Accounts payable	192
Accruals for employee compensation	325
Other liabilities	58
Total liabilities	**575**
Total identifiable net assets	**626**
Non-controlling interests	–
Goodwill arising on acquisition	2,548
Consideration[2]	**3,174**

1 The fair value of the receivables from healthcare services amounted to GEL 460. The gross amount of receivables is GEL 550. GEL 90 of the receivables has been impaired.
2 Consideration comprised GEL 3,174 cash payment, which has been fully paid as at reporting date.

Net cash outflow for the acquisition was as follows:

Cash paid	3,174
Cash acquired with the subsidiary	(4)
Net cash outflow	**3,170**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring AM. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, AM has recorded GEL 857 and GEL 264 of revenue and profit, respectively. For the year ended 31 December 2017 revenue and profit of the acquired entity were GEL 1,537 and GEL 504, respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 746,390 and GEL 46,172 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. In addition, the management believes there are potential upsides in material expenses and salary costs due to centralisation of procurement of inventories and administrative function, including HR and accounting. For tax legislation purposes goodwill is recognised on a stand-alone statement of financial position 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 Statement of Financial Position. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

5. Business combinations continued

Acquisitions in year ended 31 December 2017 continued

JSC ABC Pharmacy

On 6 January 2017, JSC GEPHA ("Acquirer"), a wholly owned subsidiary of the Group acquired 67% of JSC ABC Pharmacy ("ABC"), a pharmaceutical company operating in Georgia from individual investors. The fair values of identifiable assets and liabilities of ABC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	4,184
Receivables from sales of pharmaceuticals[1]	8,050
Inventory[1]	44,572
Property and equipment, net	10,987
Intangible assets, net	322
Current income tax assets	270
Prepayments	1,413
Other assets	1,045
Total assets	**70,843**
Liabilities	
Accounts payable	27,525
Accruals for employee compensation	1,861
Other liabilities	1,122
Total liabilities	**30,508**
Total identifiable net assets	**40,335**
Non-controlling interest	13,312
Goodwill arising on acquisition	46,796
Consideration[2]	**73,819**

1 The fair value of the receivables from healthcare services amounted to GEL 8,050. The gross amount of receivables is GEL 9,452. GEL 1,402 of the receivables has been impaired. The fair value of the inventory amounted to GEL 44,572. The gross amount of inventory was GEL 48,176. GEL 3,604 of the inventory has been impaired.

2 Consideration comprised GEL 73,819, of which GEL 10,347 is 33% share of JSC GPC, GEL 32,501 has been already paid and remaining amount is due in tranches within five years.

3 Intangible assets identified at business combination equalled GEL 322. The Group searched for other intangible assets including existence of patents and licences, however, typical cost of obtaining such assets in Georgia is very low. Separate intangible assets were not recognised due to immateriality.
The Group also considered separate recognition of customer lists, however, IFRS prohibits recognition of intangible assets on which sharing or selling personal information (name, address, personal ID, etc.) about a group of specified customers to third party without customer consent is prohibited. Sharing of such information would be violation of Georgia's Personal Data Protection Law.

Net cash outflow for the acquisition was as follows:

Cash paid	32,501
Cash acquired with the subsidiary	(4,184)
Net cash outflow	**28,317**

As part of the ABC acquisition contract the Group has a call option (derivative financial asset) to buy the remaining non-controlling interest, which is a 33% stake in the combined pharma business during the period from 1 January 2023 to 31 December 2023. At the same time the non-controlling shareholders own put option to sell the remaining non-controlling interest during the same period. Refer to Notes 16, 25 and 40.

The Group decided to increase its presence and investment in the pharmaceuticals segment through the acquisition of ABC. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, ABC has recorded GEL 139,812 and GEL 15,354 of revenue and profit, respectively.

The Group has elected to measure the non-controlling interests in ABC Pharmacy at the non-controlling interests' proportionate share of ABC Pharmacy's identifiable net assets.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

6. Segment information

For management purposes, the Group is organised into three operating segments based on the products and services – Healthcare services, Pharmacy and distribution and Medical insurance. All revenues 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.

Pharmacy and distribution comprises a wide range of drugs and para-pharmacy products which are offered through a chain of well-developed pharmacies by the Group's subsidiary JSC GEPHA.

Borrowings and respective interest expense incurred by the Group due to acquisition of the pharma subsidiaries are allocated to the pharma segment.

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 IFRS consolidated Financial Statements.

More than 20% of the Group's revenue is derived from the state. However, management believes that the Government cannot be considered as a single client, because the customers of the Group are the patients that receive medical services and not the counterparties that pay for these services. Therefore, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue in the period ended 31 December 2018 or 31 December 2017.

Selected items from the Statement of Financial Position as at 31 December 2018 and 31 December 2017 by segments are presented below:

	31 December 2018				
	Healthcare services	Pharmacy and distribution	Medical insurance	Intersegment transactions and consolidation	Total
Assets and liabilities					
Total assets	917,958	314,717	66,756	(58,925)	1,240,506
Total liabilities	448,793	216,815	43,157	(43,290)	665,475
Other segment information					
Property and equipment	651,531	31,292	15,214	–	698,037
Intangible assets	31,812	3,589	2,113	–	37,514

	31 December 2017				
	Healthcare services	Pharmacy and distribution	Medical insurance	Intersegment transactions and consolidation	Total
Assets and liabilities					
Total assets	904,443	262,203	53,176	(38,984)	1,180,838
Total liabilities	450,610	141,871	42,525	(2,568)	632,438
Other segment information					
Property and equipment	610,810	26,212	5,837	–	642,859
Intangible assets	23,628	3,003	2,259	–	28,890

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

6. Segment information continued

Statement of Comprehensive Income and selected items from the Statement of Financial Position by segments are presented below:

	Period ended 31 December 2018				
	Healthcare services	Pharmacy and distribution	Medical insurance	Intersegment transactions and consolidation	Total
Healthcare services revenue	301,987	–	–	(10,918)	291,069
Revenue from pharma	–	518,578	–	(17,488)	501,090
Net insurance premiums earned	–	–	55,112	(965)	54,147
Revenue	301,987	518,578	55,112	(29,371)	846,306
Cost of healthcare services	(174,073)	–	–	18,147	(155,926)
Cost of sales of pharmaceuticals	–	(386,372)	–	220	(386,152)
Cost of insurance services and agents' commissions	–	–	(45,427)	9,800	(35,627)
Costs of services	(174,073)	(386,372)	(45,427)	28,167	(577,705)
Gross profit	127,914	132,206	9,685	(1,204)	268,601
Other operating income	18,875	2,486	787	(4,028)	18,120
Salaries and other employee benefits	(35,178)	(45,925)	(4,434)	1,028	(84,509)
General and administrative expenses	(18,079)	(35,169)	(1,459)	271	(54,436)
Impairment of healthcare services, insurance premiums and other receivables	(4,632)	–	(362)	546	(4,448)
Other operating expenses	(12,892)	(1,383)	(166)	3,387	(11,054)
	(70,781)	(82,477)	(6,421)	5,232	(154,447)
EBITDA	76,008	52,215	4,051	–	132,274
Depreciation and amortisation	(30,772)	(2,352)	(759)	–	(33,883)
Interest income	4,588	33	1,161	(4,643)	1,139
Interest expense	(30,861)	(11,957)	(1,140)	4,643	(39,315)
Net (losses)/gains from foreign currencies and currency derivatives	(1,465)	(2,923)	215	–	(4,173)
Net non-recurring expense	(1,328)	(859)	–	–	(2,187)
Profit before income tax expense	16,170	34,157	3,528	–	53,855
Income tax expense	(37)	–	(579)	–	(616)
Profit for the period	16,133	34,157	2,949	–	53,239

6. Segment information continued

	Period ended 31 December 2017				
	Healthcare services	Pharmacy and distribution	Medical insurance	Intersegment transactions and consolidation	Total
Healthcare service revenue	263,357	–	–	(9,745)	253,612
Revenue from pharma	–	450,315	–	(11,957)	438,358
Net insurance premiums earned	–	–	53,710	31	53,741
Revenue	263,357	450,315	53,710	(21,671)	745,711
Cost of healthcare services	(150,572)	–	–	10,846	(139,726)
Cost of sales of pharmaceuticals	–	(340,210)	–	750	(339,460)
Cost of insurance services and agents’ commissions	–	–	(48,583)	10,057	(38,526)
Costs of services	(150,572)	(340,210)	(48,583)	21,653	(517,712)
Gross profit	112,785	110,105	5,127	(18)	227,999
Other operating income	20,507	1,329	255	(608)	21,483
Salaries and other employee benefits	(30,998)	(40,679)	(3,601)	(152)	(75,430)
General and administrative expenses	(16,392)	(31,180)	(1,636)	590	(48,618)
Impairment of healthcare services, insurance premiums and other receivables	(4,107)	(44)	(479)	455	(4,175)
Other operating expenses	(11,724)	(677)	(102)	(608)	(13,111)
	(63,221)	(72,580)	(5,818)	285	(141,334)
EBITDA	70,071	38,854	(436)	(341)	108,148
Depreciation and amortisation	(22,699)	(2,110)	(895)	–	(25,704)
Interest income	1,481	217	463	(50)	2,111
Interest expense	(14,182)	(12,153)	(1,258)	50	(27,543)
Net (losses)/gains from foreign currencies and currency derivatives	(3,875)	(2,065)	34	–	(5,906)
Net non-recurring expense	(3,425)	(1,496)	(200)	341	(4,780)
Profit/(Loss) before income tax expense	27,371	21,247	(2,292)	–	46,326
Income tax benefit expense	(11)	(65)	(1)	–	(77)
Income tax expense, deferred	–	–	(309)	–	(309)
Profit/(Loss) for the period	27,360	21,182	(2,602)	–	45,940
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods: revaluation of properties	(4,866)	–	–	–	(4,866)
Total comprehensive income for the year	22,494	21,182	(2,602)	–	41,074

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(Thousands of Georgian Lari unless otherwise stated)

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	31 December 2017
Current and on-demand accounts with banks	33,823	46,068
Cash on hand	2,331	2,772
Total cash and cash equivalents	36,154	48,840

Cash and cash equivalents of Imedi L on a stand-alone basis are GEL 1,625 (2017: GEL 1,513). The requirement of the Insurance State Supervision Service Agency of Georgia ("ISSSA") is to maintain a minimum level of cash and cash equivalents at 10% of the total insurance contract liabilities subject to mandatory reserve requirements as defined by the ISSSA regulatory reserve requirement resolution, which as at the reporting date amounts to GEL 750 (2017: GEL 579). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values. The Company's cash and cash equivalents comprise current accounts with banks of GEL 3,041 (2017: GEL 7,619).

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2018	31 December 2017
Time deposits with banks, local currency	7,061	2,020
Time deposits with banks, foreign currency	4,746	12,748
Total amounts due from credit institutions	11,807	14,768

As at 31 December 2018 amounts due from credit institutions are represented by short (remaining maturity from reporting date of one to 12 months) and medium-term placements with banks and earn annual interest of 0% to 12.75% (2017: 0% to 12.75%). As at 31 December 2018 amounts due from credit institutions include restricted cash of GEL 1,069 which mainly comprised amounts pledged under contract of JSC GEPHA with SSA (2017: GEL 7,190, of which GEL 2,268 was pledged under the export facility agreement with ING Bank N.V, GEL 2,581 was pledged under currency forward contracts and the remaining GEL 2,341 was pledged under credit facilities).

9. Insurance premiums receivable

Insurance premiums receivable comprises:

	31 December 2018	31 December 2017
Insurance premiums receivable from policyholders	26,034	22,562
Less – allowance for impairment (Note 33)	(2,391)	(2,329)
Total insurance premiums receivables, net	23,643	20,233

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2018 and 31 December 2017.

10. Receivables from healthcare services

Receivables from healthcare services comprise:

	31 December 2018	31 December 2017
Receivables from state	97,666	83,202
Receivables from individuals and other	22,023	29,343
Receivables from insurance companies	6,341	5,736
	126,030	118,281
Less – allowance for impairment	(19,189)	(17,337)
Total receivables from healthcare services, net	106,841	100,944

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2018 and 31 December 2017.

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 2017	8,182	401,659	12,823	10,639	145,539	4,344	9,262	752	593,200
Acquisition through business combinations (Note 5)	6,829	1,805	1,546	1,051	1,064	1,129	598	–	14,022
Revaluation	–	(6,464)	–	–	–	–	–	–	(6,464)
Additions	3,279	28,917	5,591	4,711	37,342	342	2,443	–	82,625
Disposals	–	(427)	(339)	(197)	–	(271)	(23)	–	(1,257)
Transfers	–	425	–	–	–	–	–	(425)	–
31 December 2017	18,290	425,915	19,621	16,204	183,945	5,544	12,280	327	682,126
Acquisition through business combinations (Note 5)	–	–	20	–	–	–	–	–	20
Additions	607	26,858	6,079	4,883	44,817	1,152	1,679	11	86,086
Disposals	–	–	(258)	(117)	(865)	(300)	(72)	–	(1,612)
Transfers	6,624	(6,624)	–	–	–	–	–	–	–
31 December 2018	**25,521**	**446,149**	**25,462**	**20,970**	**227,897**	**6,396**	**13,887**	**338**	**766,620**

	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 2017	192	180	1,867	2,587	11,678	887	837	–	18,228
Depreciation charge	119	3,918	981	2,301	14,098	937	986	–	23,340
Disposals	–	(134)	(318)	(174)	–	(76)	(1)	–	(703)
Revaluation	–	(1,598)	–	–	–	–	–	–	(1,598)
31 December 2017	311	2,366	2,530	4,714	25,776	1,748	1,822	–	39,267
Depreciation charge	186	4,778	2,258	3,866	17,020	1,146	1,337	–	30,591
Disposals	–	(1)	(131)	(106)	(865)	(152)	(20)	–	(1,275)
31 December 2018	**497**	**7,143**	**4,657**	**8,474**	**41,931**	**2,742**	**3,139**	**–**	**68,583**
Net book value									
1 January 2017	7,990	401,479	10,956	8,052	133,861	3,457	8,425	752	574,972
31 December 2017	17,979	423,549	17,091	11,490	158,169	3,796	10,458	327	642,859
31 December 2018	**25,024**	**439,006**	**20,805**	**12,496**	**185,966**	**3,654**	**10,748**	**338**	**698,037**

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 2018 was GEL 405,710 (2017: GEL 397,436). The Group engaged an independent appraiser to determine the fair value of its land and office buildings and hospitals and clinics on 1 October 2017, which is the latest revaluation date. Fair value is determined by reference to market-based evidence. If the land and office buildings and hospitals and clinics were measured using the cost model, the carrying amounts as at 31 December 2018 and 31 December 2017 would be as follows:

	31 December 2018	31 December 2017
Cost	**465,355**	437,890
Accumulated depreciation and impairment	**(17,110)**	(12,148)
Net carrying amount	**448,245**	425,742

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12. Goodwill and other intangible assets

The table below presents carrying values of goodwill by operating segments and other intangible assets:

	Effective annual terminal growth rate	Pre-tax WACC applied for impairment test*	31 December 2018	31 December 2017
Pharmacy and distribution goodwill	5%	14.4%	**77,755**	77,755
Healthcare services goodwill	5%	12.7%	**33,567**	33,567
Medical insurance goodwill	5%	14.3%	**3,462**	3,462
Total goodwill			**114,784**	114,784
Other intangible assets**			**37,514**	28,890
Total goodwill and other intangible assets			**152,298**	143,674

* Post-tax WACC (weighted average cost of capital) comprised approximately 13%.
** Net of accumulated amortisation.

In performing goodwill impairment testing the following key assumptions were made:

- WACC was used as a discount rate for the forecasted cash flows. WACC was estimated using capital assets pricing model based on the Group's shares market beta.
- 2019, 2020 and 2021 years' cash flow projections were modelled applying 5%-20% growth and 2022 and afterwards were modelled based on 5% terminal growth rate.

Moderate, stable 5% real GDP growth was assumed based on the external statistical forecasts for 2021 and beyond.

For the healthcare cash-generating unit, the following additional assumptions were made over the first three-year period of the business plan:

- further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage; and
- growth of other healthcare business lines through an increased market demand and economic growth.

Goodwill is tested at the lowest level monitored by management, which is at the operating segment level. The Group performs goodwill impairment testing annually. The latest impairment test performed by the Group was as at 31 December 2018. The Group did not identify any impairment of goodwill as at 31 December 2018. The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations using cash flow projections based on financial budgets approved by the Board covering from a one to three-year period. The Group did not identify any indicators of impairment at 31 December 2018. No reasonably possible change in assumptions would lead to any impairment of the pharmacy and distribution, and medical insurance goodwill. The recoverable amount of the healthcare services operating segment exceeds its carrying amount by GEL 253,595 using the discount rate of 12.7%. The discount rate that brings value in use of healthcare services segment equal to its carrying value is 15.21%.

Other intangible assets comprise licenses and computer software with carrying value as at 31 December 2018 of GEL 37,514 (31 December 2017: GEL 28,890). As at 31 December 2018 the cost of other intangible assets equalled GEL 45,903 (31 December 2017: GEL 33,272) and accumulated amortisation equalled GEL 8,389 (31 December 2017: GEL 4,382). The Group performed impairment tests and identified impairment of intangible assets GEL 260 (31 December 2017: GEL 606), which was charged to profit or loss.

13. Taxation

The corporate income tax expense comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Current tax expense	**(616)**	(77)
Deferred tax charge – origination and reversal of temporary differences	**–**	(309)
Income tax expense	**(616)**	(386)

Georgian legal entities must file individual tax declarations. As at 31 December 2018 the statutory corporate tax rate was zero rate (2017: 0%) on retained earnings and 15% (2017: 15%) tax rate on distributed earnings.

The effective income tax rate differs from the statutory income tax rates. Reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
IFRS income before tax	**53,855**	46,326
Average tax rate	**15%**	15%
Theoretical income tax expense at the statutory rate	**(8,078)**	(6,949)
Georgian tax code change effect	**–**	(309)
Correction of prior year declaration	**(50)**	–
Non-taxable income	**7,549**	6,949
Other non-deductible expenses	**(37)**	(77)
Income tax expense	**(616)**	(386)

13. Taxation continued

Deferred tax assets and liabilities as at 31 December and their movements for the year then ended comprise:

	31 December 2016	In the income statement	31 December 2017	In the income statement	31 December 2018
Tax effect of deductible temporary differences					
Tax credits carried forward	–	–	–	21,048	21,048
Insurance premiums receivables	513	(513)	–	–	–
Borrowings	87	(87)	–	–	–
Other assets	63	(63)	–	–	–
Deferred tax assets	663	(663)	–	21,048	21,048
Tax effect of taxable temporary differences:					
Property and equipment	29	(29)	–	–	–
Investment in subsidiaries	–	–	–	21,048	21,048
Insurance contract liabilities	(35)	35	–	–	–
Intangible assets	360	(360)	–	–	–
Deferred tax liabilities	354	(354)	–	21,048	21,048
Net deferred tax (liability) asset	309	(309)	–	–	–
Deferred income tax assets	309	(309)	–	–	–
Deferred income tax liabilities	–	–	–	–	–

14. Inventory

	31 December 2018	31 December 2017
Inventory held by pharma business ("FIFO")	127,924	111,976
Inventory held by healthcare business (weighted average cost)	18,240	19,873
Total	146,164	131,849

Increase in pharma business inventory y-o-y is mainly caused by growth of pharma business. The Group performed inventory net realisable value test and did not identify impairment of inventory as at 31 December 2018 (2017: GEL 323 was charged to profit or loss).Inventories recognised as an expense during 2018 comprised GEL 420,164 (2017: GEL 373,475).

Following an analysis carried out in 2018, the consignment inventory is now presented on a gross basis. As a result, the prior year comparatives have been changed to comply with the current year presentation, which resulted in increase of 2017 year inventory balance by GEL 13,038. Accounts payable for healthcare materials and supplies, as included in the accounts payable caption, also increase with the corresponding amount of GEL 13,038 in 2017.

15. Prepayments

Prepayments comprise:

	31 December 2018	31 December 2017
Prepayments for inventory	7,053	7,935
Prepayments for property and equipment	2,809	13,906
Prepayments for claims expense	1,344	3,209
Other prepayments	1,858	5,304
Total prepayments	13,064	30,354

The prepayments for property and equipment mainly comprise advances for construction activities.

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16. Other assets

Other assets comprise:

	31 December 2018	31 December 2017
Call option (Notes 30, 40)	16,969	10,106
Lease deposit	1,832	1,774
Loans issued	1,452	1,425
Reinsurance asset	1,313	–
Prepaid operating taxes	1,115	756
Deferred acquisition costs	1,071	1,293
Operating lease receivable	742	–
Investment property	653	395
Non-medical receivables	170	1,626
Receivable from non-controlling interest shareholder	–	2,128
Derivative financial assets	40	130
Other receivables	4,998	5,588
Total other assets, gross	30,355	25,221
Less – allowance for impairment (Note 33)	(2,428)	(2,473)
Total other assets, net	27,927	22,748

As part of the ABC acquisition contract the Group entered into a call option agreement to buy the remaining non-controlling interest, which is a 33% stake in the combined pharma business during the period from 1 January 2023 to 31 December 2023. Respective derivative financial asset amounted to GEL 16,969 as at 31 December 2018 (2017: GEL 10,106).

Lease deposit comprises advances paid to a lease contractor on the rent of an ambulatory clinic as at 31 December 2018. Lease payments are netted against the deposited amount upon payment due date. Other receivables mainly comprise rent receivables and receivables from employees.

17. Insurance contract liabilities

Insurance contract liabilities comprise:

	31 December 2018	31 December 2017
Insurance contracts liabilities		
– Unearned premiums reserve ("UPR")	19,291	17,851
– Reserves for claims reported but not settled ("RBNS")	1,964	177
– Reserves for claims incurred but not reported ("IBNR")	1,289	2,925
Total insurance contracts liabilities	22,544	20,953

Movement in the insurance contract liabilities during the year can be analysed as follows:

	31 December 2018			31 December 2017
	Insurance contract liabilities	Reinsurance asset	Net	Insurance contract liabilities
At 1 January	20,953	–	20,953	26,787
Premiums written during the period	60,340	5,048	55,292	49,220
Premiums earned during the period	(58,900)	(4,753)	(54,147)	(53,741)
Claims incurred during the period	37,211	4,427	32,784	35,153
Claims paid during the period	(37,060)	(3,409)	(33,651)	(36,466)
At 31 December	22,544	1,313	21,231	20,953

18. Borrowings

The Groups' borrowings comprise:

	31 December 2018	31 December 2017
Borrowings from foreign financial institutions	156,449	159,683
Borrowings from local financial institutions	134,337	100,537
Borrowings from non-controlling interest shareholders	6,031	6,790
Total borrowings	296,817	267,010

In the year ended 31 December 2018 borrowings from local financial institutions had an average interest rate of 10.74% per annum (2017: 10.81%), maturing on average in 782 days (2017: 1,081 days). Borrowings from international financial institutions had an average interest rate of 9.52% (2017: 8.76%), maturing in 1,918 days (2017: 2,168 days). Borrowings from non-controlling interest shareholder of subsidiary had an average interest rate of 12.32% (2017: 12.41%), maturing in 74 days (2017: 74 days). Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. As at 31 December 2018 and 31 December 2017 the Group complied with all these lender covenants. The Company's borrowings are GEL 9,432 (2017: GEL 7,852), which entirely represents loans from Medical Corporation EVEX.

19. Accounts payable

Accounts payable comprise:

	31 December 2018	31 December 2017
Accounts payable for healthcare materials and supplies	90,102	86,841
Payable for purchase of property and equipment	7,171	4,242
Accounts payable for office supplies	3,187	5,577
Accounts payable for healthcare services	252	4,563
Other accounts payable	4,380	4,740
Total accounts payable	105,092	105,963

20. Debt securities issued

In July 2017 EVEX issued five-year term local bonds of GEL 90 million. The bonds were issued at par value with an annual coupon rate of 10.5% representing a 350 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate. The proceeds were used to refinance borrowings from local commercial banks, which are a relatively more expensive source of funding, and also to fund planned ongoing capital expenditures. Outstanding balance as of 31 December 2018 equalled GEL 93,573 (2017: GEL 93,493).

21. Payables for share acquisitions

Payables for share acquisitions (also referred to as a "holdback" or an "acquisition holdback") are stated at fair value and represent outstanding amounts payable for business combinations and acquisition of non-controlling interest in existing subsidiaries. Payables for business combination is a portion of the total consideration, payment of which is deferred for a specified period of time in the future and, usually, is contingent upon certain events or conditions precedent or covenants established by the buyer. These conditions are: (i) the audited total equity balance in accordance with IFRS should not be materially different compared to management accounts existing as at the date of deal; (ii) material unrecorded liabilities should not be identified; and (iii) any liabilities of the acquiree and/or its related parties towards the acquirer should not remain unpaid for greater than predetermined period after acquisition. Once these conditions precedent are fulfilled, the holdback amount is then paid fully or adjusted, as prescribed in the share purchase agreement for each particular business combination.

Payable for share acquisitions comprised:

	31 December 2018	31 December 2017
Holdback for the acquisition of JSC ABC Pharmacy	88,536	92,409
LLC Emergency Service	2,591	2,850
JSC Pediatry	347	347
JSC Policlinic Vere	–	1,581
LLC Patgeo	–	756
LLC Medical Center Almedi	–	200
LLC New Clinic	–	115
Total payables for share acquisitions	91,474	98,258

As at 31 December 2018, GEL 71,668 (2017: GEL 61,512) from JSC ABC holdback amount of GEL 88,536 (2017: GEL 92,409) represents redemption liability arising from put option held by minority shareholders of JSC GEPHA which can be exercised in 2022 in case of which the Group will have to acquire from non-controlling interests the remaining 33% shares based on pre-determined EBITDA multiple (4.5 times EBITDA). Payables for share acquisitions are measured at fair value: put option is measured at present value of the best estimate of ultimately payable amount; holdbacks for business acquisitions are measured at fair value, being the best estimate of price that would be paid to transfer a liability. During 2018 the Group paid GEL 12,948 from the JSC ABC holdback amount (2017: GEL 0).

22. Finance lease liabilities

Finance lease liabilities comprises the minimum lease payments and repurchase option price, exercisable in up to one-year period from agreement start date, of two ambulatory clinics located in Georgia, one in Tbilisi and one in Batumi, western Georgia. As at 31 December 2018, net carrying value of properties held under finance lease equalled GEL 8,799 (2017: GEL 8,854). The undiscounted value of future minimum lease payments and repurchase option equalled GEL 8,780 (2017: GEL 9,048) (Note 39) while present value of these amounts equalled GEL 8,676 (2017: GEL 8,834). At the option expiration, the embedded purchase option in finance lease agreements is renewed automatically unless the counterparty comes up with new repurchase price within several days from the option expiration. All payments under finance lease contracts are due in no later than one year.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

23. Other liabilities

Other liabilities comprise:

	31 December 2018	31 December 2017
Deferred revenues	4,867	4,138
Insurance claims payable	3,802	2,615
Operating taxes payable	3,461	4,767
Advances received	3,170	71
Reinsurance liability	1,799	–
Commissions payable	1,339	1,293
Dividend payable to non-controlling interest shareholders	990	–
Provision for ongoing litigations	540	1,657
Derivative financial liability	–	1,091
Other	675	279
Total other liabilities	20,643	15,911

24. Commitments and contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

As at 31 December 2018, the Group had litigation with the Social Service Agency ("SSA") in relation to an aggregate amount of GEL 7,233 (2017: GEL 6,631). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process.

Financial commitments and contingencies

The Group's financial commitments and contingencies comprise the following:

	31 December 2018	31 December 2017
Capital commitments	1,099	5,550
Operating lease commitments		
– Leases due not later than one year	20,252	18,298
– Leases due later than one year but not later than five years	65,388	71,004
Total minimum operating lease commitments	85,640	89,302
Total financial commitments	86,739	94,852

As at 31 December 2018 and 31 December 2017, capital commitments mainly comprised contracts related to the construction of Mega Lab and ambulatory clinics in Georgia. The commitments fully result from subsidiaries. The Company does not have any commitments or contingencies. The Group did not have contingent rents or sublease payments. The Company does not have any lease commitments. Rent expense recognised during the year equalled GEL 19,488 (2017: GEL 19,083).

25. Equity

Share capital

Share capital of Georgia Healthcare Group PLC is denominated in GBP and shareholders are entitled to dividends in GBP. No dividends were announced or distributed in the period ended 31 December 2018 or 31 December 2017.

As at 31 December 2018 and 31 December 2017, number of ordinary shares comprised 131,681,820 totalling GEL 4,784 (GBP 1,310). As at 31 December 2018 and 31 December 2017, number of shares issued and fully paid comprised 128,181,820. As at 31 December 2018 and 31 December 2017, number of shares issued but not paid comprised 3,500,000. Nominal amount of each share comprises GBP 0.01.

Treasury shares

The number of treasury shares held by the Company as at 31 December 2018 was 2,937,273 (2017: 3,379,629). The treasury shares are kept by the Company for the purposes of its future employee share-based compensation. During 2018 the Group purchased treasury shares of GEL 3,055 (2017: GEL 1,950).

Additional-paid in capital

Additional paid-in-capital comprises credits or debits to equity on GHG share-related transactions. Any GHG share-related transaction impact (including share-based compensations) on top of nominal amount of GHG shares (GBP 0.01) is posted in additional paid-in-capital account.

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and hospitals and clinics and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. As at 31 December 2018 the revaluation reserve for property and equipment equalled GEL 15,646 (2017: GEL 15,646).

25. Equity continued

Gains (losses) from sale/acquisition of shares in existing subsidiaries

In 2017, as part of the ABC acquisition contract, the selling shareholders have a put option to sell their remaining 33% stake in the combined pharmacy and distribution business to GHG during the period from 1 January 2023 to 31 December 2023. At initial recognition, in accordance with IFRS requirements, the Group recognised GEL 55 million (present value) liability to purchase the remaining 33% shares – included in the payable for share acquisitions caption. The non-controlling interest arising from the consolidated pharmacy and distribution business, GEL 24 million, was fully de-recognised in accordance with IFRS requirements. The difference between the redemption liability of GEL 55 million and the non-controlling interest of GEL 24 million was debited to equity, resulting in a reduction of equity through other reserves by GEL 31 million. All the difference between subsequent changes to the redemption liability and the non-controlling interest is recogniSed in equity in the line "Acquisition of additional interest in existing subsidiaries" – the amount debited to equity equalled GEL 6,583 in 2018. The remaining credit to other reserves during 2018 comprised GEL 114, which represents additional interest acquisition in JSC St. Nicholas Surgery Clinic.

As at 31 December 2018, losses from sale/acquisition of shares in existing subsidiaries equalled GEL 48,982 (2017: GEL 42,512).

Retained earnings

The impact of adoption of IFRS 9, GEL 6,535 was debited to retained earnings as at 1 January 2018, the transition date. Refer to Note 3.

Regulatory capital requirements

Regulatory capital requirements in Georgia are set by the ISSSA and are applied to Imedi L solely on a stand-alone basis. The ISSSA requirement is to maintain a minimum capital of GEL 2,200, which should be kept in current accounts. A bank confirmation letter is submitted to ISSSA on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement. Imedi L regularly and consistently complies with the ISSSA regulatory capital requirement.

Earnings per share

For the purpose of calculating basic earnings per share the Group used profit for the year and total comprehensive income for the year attributable to shareholders of the Company of GEL 34,434 (2017: GEL 29,110) and GEL 34,434 (2017: GEL 24,650), respectively, as a numerator and the weighted average number of shares outstanding during the period ended 31 December 2018 of 128,752,840 (31 December 2017: 128,128,088) as a denominator. For diluted earnings per share, the Group used the same numerator as for basic earnings per share and used the weighted average number of shares outstanding together with the number of shares granted to management during the period ended 31 December 2018 of 131,681,820 (2017: 131,681,820) as a denominator. Excluding the impact of IFRS 9 adoption, 2018 basic and diluted earnings per share (profit for the period) would have been 0.27 and 0.26, respectively (2017: 0.23 and 0.22 respectively). Excluding the impact of IFRS 9 adoption, 2018 basic and diluted earnings per share (total comprehensive income) would have been 0.27 and 0.26, respectively (2017: 0.19 and 0.19, respectively).

26. Healthcare services and pharmacy and distribution revenue

	Year ended 31 December 2018	Year ended 31 December 2017
Healthcare services revenue from state ("UHC")	204,261	178,818
Healthcare services revenue from out-of-pocket and other	78,500	64,878
Healthcare services revenue from insurance companies	11,917	11,955
Less: Corrections and rebates	(3,609)	(2,039)
Total healthcare services revenue	291,069	253,612
Retail	372,110	329,733
Wholesale	128,980	108,625
Total revenue from pharmacy and distribution	501,090	438,358

The Group has recognised the following revenue-related contract assets and liabilities:

	31 December 2018	31 December 2017
Deferred revenues	4,867	4,138
Receivables from healthcare services	106,841	100,944
Receivables from sale of pharmaceuticals	20,440	19,798

Receivables from healthcare services are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as the Group performs under the contract.

The Group recognised GEL 729 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in deferred revenues.

In period ended 31 December 2018, the Group has recognised the following amounts relating to revenue from contracts with customers in the Income Statement: Healthcare services revenue of GEL 291,069; revenue from pharmacy and distribution of GEL 501,090; other operating income from sale of medicine of GEL 447.

The Group applies practical expedient mentioned in IFRS 15.121 and does not disclose information about the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, the original expected duration of the underlying contracts is less than one year.

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(Thousands of Georgian Lari unless otherwise stated)

27. Net insurance premiums earned

Net insurance premium earned comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Gross premiums written	55,292	49,220
Change in unearned premiums reserve	(1,145)	4,521
Total net insurance premiums earned	54,147	53,741

28. Cost of healthcare services and pharmaceuticals

	Year ended 31 December 2018	Year ended 31 December 2017
Cost of salaries and other employee benefits	(105,440)	(92,744)
Cost materials and supplies	(34,012)	(34,015)
Cost of utilities and other	(13,248)	(11,113)
Cost of providers	(3,226)	(1,854)
Total cost of healthcare services	(155,926)	(139,726)
Retail	(275,887)	(246,310)
Wholesale	(110,265)	(93,150)
Total cost of sales of pharmaceuticals	(386,152)	(339,460)

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 2018 to GEL 84,509 (2017: GEL 75,430) 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 2018 amounted to GEL 189,949 (2017: GEL 168,174).

29. Cost of insurance services and agents' commissions

Cost of insurance services and agents' commissions comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Insurance claims paid	(33,651)	(36,466)
Change in insurance contract liabilities	867	1,313
Net insurance claims incurred	(32,784)	(35,153)
Agents, brokers and employee commissions	(2,843)	(3,373)
Cost of insurance services and agents' commissions	(35,627)	(38,526)

30. Other operating income

Other operating income comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Gain from call option (Notes 16, 40)	6,863	10,106
Payables derecognised	3,881	–
Rental income	1,190	731
Fee income	944	–
Litigation reserve reversal	817	–
Gain from property and equipment sold	490	563
Revenue from sale of medicaments	447	947
Income from residency programme	291	169
Share of profit of associate	247	375
Gain from lease derecognition	–	2,702
Gain from rent liability derecognition	–	514
Gain from revaluation of investment property	–	395
Revenue from realised stationary	–	301
Other	2,950	4,680
Total other operating income	18,120	21,483

30. Other operating income continued

As part of the ABC acquisition contract acquirer ("JSC GEPHA") has a call option to buy the remaining non-controlling interest, which is a 33% stake in the combined pharmacy and distribution business during the period from 1 January 2023 to 31 December 2023. In the period ended 31 December 2018, in accordance with IFRS requirement's the Group recognised GEL 6,863 (2017: GEL 10,106) gain from the call option.

In the period ended 31 December 2018 the Group derecognised trade payables of GEL 3,081 principally due to expiration of statute of limitations.

In the period ended 31 December 2017, gain from lease derecognition during the prior period includes gain from early redemption of finance lease liability from acquisition of Gldani polyclinic building.

31. Salaries and other employee benefits

Salaries and employee benefits comprise:

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and other benefits	(71,510)	(68,134)
Cash bonuses	(7,831)	(4,337)
Share-based compensation	(5,168)	(2,959)
Total salaries and other employee benefits	(84,509)	(75,430)

Average number of full-time employees, including those whose salaries are included in cost of healthcare services, in 2018 equaled 15,704 (2017: 13,894). In 2018 total amount of management share-based compensation prior to capitalisation of eligible costs equaled GEL 6,135 (2017: GEL 3,858). Portion of share-based compensation costs were capitalised on development projects.

Directors' remuneration information is disclosed in the Remuneration Report in the front end of the Annual Report.

32. General and administrative expenses

General and administrative expenses comprise:

	Year ended 31 December 2018	Year ended 31 December 2017
Occupancy and rent expense	(19,488)	(19,083)
Marketing and advertising	(6,209)	(5,539)
Office supplies and utility expenses	(5,464)	(4,189)
Professional services	(4,753)	(3,874)
Operating tax expense	(3,818)	(2,213)
Bank fees and commissions	(1,907)	(1,401)
Administrative utilities	(1,863)	(1,761)
Communication	(1,780)	(1,691)
Representative expense	(1,645)	(1,239)
Travel	(1,113)	(1,259)
Security	(966)	(797)
Other	(5,430)	(5,572)
Total general and administrative expenses	(54,436)	(48,618)

In the years ended 31 December 2018 and 31 December 2017 other general and administrative expenses mainly comprised of training, property insurance and other expenses.

The below table presents auditors' remuneration:

	Year ended 31 December 2018	Year ended 31 December 2017
Fees payable for the audit of the Company's current year Annual Report	921	979
Fees payable for other services:		
Audit of the Company's subsidiaries	53	138
Total audit fees	974	1,117
Audit-related assurance services:		
Review of the Company's and subsidiaries' interim accounts	371	361
Total audit-related fees	371	361
Total fees	1,345	1,478

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

33. Impairment of healthcare services, sales of pharmaceuticals, insurance premiums and other receivables

The movements in the allowance for healthcare services, insurance premiums receivables and other receivables are as follows:

	Insurance and reinsurance receivables	Receivables from healthcare services	Receivables from Pharma	Other receivables	Total
1 January 2017	2,519	11,030	–	3,201	16,750
Impairment charge/(reversal)	479	4,424	–	(728)	4,175
Impairment of receivables due to litigations	–	1,883	–	–	1,883
Write-off	(669)	–	–	–	(669)
31 December 2017	2,329	17,337	–	2,473	22,139
Impairment charge/(reversal)	**362**	**4,351**	**(220)**	**(45)**	**4,448**
IFRS 9 adoption effect	**–**	**5,536**	**1,491**	**–**	**7,027**
Impairment of receivables due to litigations	**–**	**2,801**	**–**	**–**	**2,801**
Write-off	**(300)**	**(10,836)**	**(686)**	**–**	**(11,822)**
31 December 2018	**2,391**	**19,189**	**585**	**2,428**	**24,593**

In 2018, the Group adopted IFRS 9. Impact of the adoption comprised GEL 7,027 and was attributable to the forward-looking nature of the standard. As at 31 December 2018 gross amount of written-off enforceable receivables equalled GEL 30,798 (2017: GEL 18,976).

34. Other operating expense

	Year ended 31 December 2018	Year ended 31 December 2017
Repair and maintenance expense	**(2,880)**	(1,756)
Impairment of receivables due to litigations	**(2,801)**	(1,883)
Client referral fee expense	**(1,898)**	(535)
Penalties and impairment of tax assets	**(1,118)**	(3,314)
Cost of realised medicaments	**(694)**	(697)
Charity	**(225)**	–
Impairment of prepayments	**(115)**	(225)
Loss from property and equipment sold	**(110)**	(515)
Impairment of intangible assets	**(260)**	(606)
Impairment expense on inventory	**–**	(323)
Loss from litigations	**–**	(289)
Cost of realised stationary	**–**	(197)
Expense on corporate event	**–**	(168)
Loss from receivables write-off	**–**	(141)
Other	**(953)**	(2,462)
Total other operating expense	**(11,054)**	(13,111)

In 2018 and 2017 years the penalty expenses mainly related to procedural violations in medical documentation as well as billing and invoicing process.

35. Interest income and interest expense

Interest income and interest expense comprise:

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income		
Interest income from loans issued	**197**	404
Interest income from amounts due from credit institutions	**942**	1,707
Total interest income	**1,139**	2,111
Interest expense		
Interest expense on borrowings	**(29,332)**	(22,240)
Interest expense on debt securities issued	**(9,125)**	(4,257)
Interest expense on finance lease	**(858)**	(1,046)
Total interest expense	**(39,315)**	(27,543)

35. Interest income and interest expense continued

As at 31 December 2018 the amount of borrowing costs capitalised in relation to qualifying items of property and equipment was GEL 2,336 (2017: GEL 7,936). In 2018 the rate needed to determine the amount of borrowing costs eligible for capitalisation was 12.5% (2017: 12.2%), which is the effective interest rate of specific borrowings.

36. Net non-recurring expense

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as income or expense triggered by or originated from n unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Net non-recurring expense for the year ended 31 December 2018 comprised:

- GEL 783 one-off charity expense;
- GEL 430 loss for remeasurement of contingent consideration payable;
- GEL 331 prior period related professional service additional billing expense;
- GEL 184 loss from employee dismissal compensation; and
- GEL 459 loss from other individually insignificant transactions.

Net non-recurring expense for the year ended 31 December 2017 comprised:

- GEL 1,577 loss from one-off dismissal compensations to employees;
- GEL 1,253 loss from one-off write-off of a loan related to LLC Regional Hospital acquisition;
- GEL 687 loss from loan write-off;
- GEL 638 expense from one-off charity related to fire in Borjomi, town in Georgia;
- GEL 311 loss on contracts terminated in 2017; and
- GEL 314 loss from other individually insignificant transactions.

Near the end of 2017 the Board approved project aimed at cost optimisation. In scope of the project, the Group dismissed number of its employees mainly transferred from acquired entities that resulted in duplicated positions. The project started in 2017 and was mainly completed in the first quarter of 2018.

37. Share-based compensation

Sanne Fiduciary Services (the "Trustee") acts as the trustee of the Group's Employee Benefit Trust, ("EBT"), which was founded in 2015. The EBT was established for the purposes of satisfying deferred share compensation awarded to Executive Directors and other members of executive and senior management.

GHG senior executive plans

In December 2017 the Board of Directors of GHG resolved to award 122,900 ordinary shares of GHG to the CEO of the Group. In February 2017 the Board of Directors of GHG resolved to award 107,200 ordinary shares of GHG to three executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 10 December 2017 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 12.54 per share as at grant date. The fair values were identified based on market prices on grant date. As at 31 December 2018 no shares have been vested.

In February 2017 the Board of Directors of GHG resolved to award 141,981 ordinary shares of GHG to the CEO of the Group. In February 2017 the Board of Directors of GHG resolved to award 128,070 ordinary shares of GHG to three executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 28 February 2017 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 11.68 per share as at grant date. The fair values were identified based on market prices on grant date. As at 31 December 2018, one-third of the discretionary shares have been vested.

In February 2016, the Board of Directors of GHG resolved to award 237,500 ordinary shares of GHG to the CEO of the Group. In February 016, the Board of Directors of GHG resolved to award 281,000 ordinary shares of GHG to three executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2016 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 6.28 per share as at grant date. The fair values were identified based on market prices on grant date. As at 31 December 2017, two-thirds of the discretionary shares have been vested.

In January 2015, the CEO of the Group and the deputies signed five-year fixed contingent share-based compensation agreements for the total of 1,670,000 ordinary shares of GHG. The total amount of shares allocated to each executive will be awarded in five equal instalments during the five consecutive years starting January 2017, of which each award will be subject to a four-year vesting period with 20% of shares vesting during the first three years and 40% of shares vesting during the fourth year. The Group considers 1 January 2015 and 29 April 2015 as the grant dates for the awards to the CEO and deputies, respectively. The Group estimates that the fair value of the shares awarded was GEL 2.18 per share as at the respective grant dates. The respective fair values were estimated using appropriate valuation techniques based on market and income approaches. As at 31 December 2018, 12% of the shares have been vested.

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(Thousands of Georgian Lari unless otherwise stated)

37. Share-based compensation continued

GHG senior executive plans continued

Apart from the above awards to CEO and other executives, in December 2017 the Group also awarded 222,478 shares to middle management (February 2017: 250,202 shares) with continuous employment being the only vesting condition. Fair value of the shares awarded was GEL 12.54 per share as at grant date. As at 31 December 2018 no shares have been vested.

Aggregate expense recognised in 2018 year, with regard to the above awards, comprised GEL 6,135 (2017: GEL 3,858).

	31 December 2018	31 December 2017
Number of shares outstanding at 1 January	1,427,175	988,968
Granted during the year	826,529	816,641
Forfeited during the year	(14,213)	(26,901)
Vested during the year	(579,215)	(351,533)
Number of shares outstanding at 31 December	1,660,276	1,427,175

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2018 was 1.89 years (2017: 2.86 years). The weighted average fair value of shares granted during the year was GEL 12.54 (2017: GEL 11.68).

38. Capital management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current year, revaluation and other reserves, non-controlling interests, borrowings and debt securities issued. The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are as follows:

- To maintain the required level of stability of the Group thereby providing a degree of security to the shareholders as well as insurance policyholders of the insurance arm.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

Some operations of the Group are subject to local regulatory requirements in Georgia. These requirements impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimum insurance liquidity requirement, to minimise the risk of default and insolvency and to meet unforeseen liabilities as they arise.

During the year ended 31 December 2018 and year ended 31 December 2017 the Group complied with all regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

The Group's capital management policy for its insurance business is to hold the least required amount of regulatory capital and, also, to hold sufficient liquid assets to cover statutory requirements based on the directives of ISSSA. The regulations of ISSSA require that an insurance company must hold liquid assets of at least 75% of its unearned premium reserve, net of gross insurance premiums receivable, and 100% of its loss reserves. Assets eligible for inclusion in liquid assets are: cash and cash equivalents, amounts due from credit institutions, loans issued, investment property as well as other financial assets, as defined by ISSSA. The amount of such minimum liquid assets is called the "Statutory Reserve".

The Statutory Reserve requirement for Imedi L as at 31 December 2018 equals the minimal amount of liquid assets of GEL 7,503 (2017: GEL 5,890). The insurance company is fully compliant with the requirement by holding GEL 7,546 (2017: GEL 6,687) of total eligible liquid assets.

Changes in liabilities arising from financing activities

	Borrowings	Debt securities issued	Finance lease liabilities	Total
1 January 2018	267,010	93,493	8,834	369,337
Proceeds from borrowings	83,241	–	–	83,241
Repayment of borrowings	(61,818)	–	–	(61,818)
Interest accrual/(payment)	6,205	80	(118)	6,167
Foreign exchange (gain)/loss	2,179	–	(40)	2,139
31 December 2018	296,817	93,573	8,676	399,066

38. Capital management continued

Changes in liabilities arising from financing activities continued

	Borrowings	Debt securities issued	Finance lease liabilities	Total
1 January 2017	187,557	36,024	14,878	238,459
Proceeds from debt securities issue, net of transaction costs	–	89,011	–	89,011
Repurchase of debt securities	–	(34,197)	–	(34,197)
Proceeds from borrowings	217,121	–	–	217,121
Repayment of borrowings	(139,343)	–	–	(139,343)
Purchase of leased property	–	–	(5,812)	(5,812)
Interest accrual/(payment)	3,603	4,483	(45)	8,041
Foreign exchange (gain)/loss	(1,928)	(1,828)	(187)	(3,943)
31 December 2017	267,010	93,493	8,834	369,337

39. Risk management

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to insurance risk, credit risk, liquidity risk and market risk. It is also subject to operational risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Board of Directors

The Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's businesses. Among our responsibilities are setting and overseeing the execution of the Group's strategy within a framework of effective risk management and internal controls, demonstrating ethical leadership and upholding best practice corporate governance. The Board is comprised of nine Directors, six of whom are Independent Non-Executive Directors. Each of the Chairman, CEO and Non-Executive Directors has clearly defined roles within our Board structure.

Audit Committee

The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Group's risk management strategy related to the general control environment, manual and application controls, risks of intentional or unintentional misstatements, risk of fraud or misappropriation of assets, information security, information technology risks, etc. The Audit Committee facilitates the activities of the internal audit and external auditors of the Group. The Audit Committee is elected and directly monitored by the independent members of the Board.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is the Base Case (forecast under normal business conditions) and the other two are the Troubled and Distressed Scenarios, which are worse and the worst-case scenarios, respectively, that would arise in the event that extreme events that are unlikely to occur do, in fact, occur. Monitoring and controlling risks 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.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

39. Risk management continued

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than originally estimated and subsequent development of long-term claims. The Group primarily uses its loss ratio and its combined ratio to monitor its insurance risk.

Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as insurance related operating expenses excluding interest expense divided by net insurance revenue. The Group's loss ratios and combined ratios were as follows:

	31 December 2018	31 December 2017
Loss ratio	77.3%	84.2%
Combined ratio	94.0%	102.5%

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 2018	Year ended 31 December 2017
Healthcare	2,308	2,177
Term Life	570	660
Travel	280	202
Personal accident	96	62
	3,254	3,101

For these insurance contracts the most significant risks arise from lifestyle changes, epidemic as well as changes in loss frequency and increases in prices of medical services. These risks vary significantly in relation to the location of the risk insured by the Group and the type of risks insured.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategies.

The Group establishes underwriting guidelines and limits that stipulate who may accept risks, their nature and applicable limits. These limits are continuously monitored. Strict claim review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims are in place. The Group also enforces a policy of actively managing and promptly processing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

Loss development triangle

Reproduced below is a table that shows the development of claims over a period of time. The table shows reserves for both, claims reported as well as claims incurred but not yet reported, and cumulative payments. Claims estimates are translated into Georgian Lari at the rate of exchange that applied at the end of the accident year:

Accident year	31 December 2018	31 December 2017	31 December 2016
At the end of accident year	36,038	38,255	49,959
One year later	–	17	19
Two years later	–	–	–
Three years later	–	–	–
Current estimation of cumulative claims incurred	36,038	38,272	49,978
At the end of accident year	(32,784)	(35,153)	(45,544)
One year later	–	(3,145)	(4,357)
Two years later	–	–	–
Three years later	–	–	–
Cumulative payments to date	(32,784)	(38,298)	(49,901)
Outstanding claims provision	3,254	(26)	77
Current estimation of (deficit)/surplus		(20)	58
% of (deficit)/surplus to initial gross reserve		-0.05%	0.12%

39. Risk management continued

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for product and currency concentrations, and by monitoring exposures in relation to such limits. Also, the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service and ageing of receivables. Counterparty limits are established in combination with credit terms. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The credit quality of financial assets is managed by the Group based on number of overdue days. The table below shows maximum exposure to credit risk and credit quality by class of asset in the statement of financial position.

Credit quality per class of financial assets

	Notes	Neither past due nor impaired 31 December 2018	Past-due but not impaired 31 December 2018	Impaired 31 December 2018	Total 31 December 2018
Amounts due from credit institutions	8	11,807	–	–	11,807
Insurance premiums receivable	9	23,643	–	2,391	26,034
Receivables from sales of pharmaceuticals		20,440	–	584	21,024
Receivables from healthcare services	10	65,799	41,042	19,189	126,030
Other assets: loans issued and lease deposit	16	3,284	–	–	3,284
Other assets: other receivables		7,497	177	2,428	10,102
		132,470	41,219	24,592	198,281

	Notes	Neither past due nor impaired 31 December 2017	Past-due but not impaired 31 December 2017	Impaired 31 December 2017	Total 31 December 2017
Amounts due from credit institutions	8	14,768	–	–	14,768
Insurance premiums receivable	9	20,233	–	2,329	22,562
Receivables from sales of pharmaceuticals		19,798	–	–	19,798
Receivables from healthcare services	10	75,424	25,520	17,337	118,281
Other assets: loans issued and lease deposit	16	3,199	–	–	3,199
Other assets: other receivables	16	3,115	–	2,473	5,588
Total		136,537	25,520	22,139	184,196

Financial assets that are in overdue for less than 30 days are considered to have relatively low credit risk unless there is some forward-looking evidence to the contrary. Such assets are classified in grades "AA" (table 1 in Note 3) and "A" (table 2 in Note 3) in accordance with the Group's accounting policy and are included in "neither past due not impaired" category. The forward-looking evidence can be from the third-party sources including mass media, credit rating changes by rating provider agencies and events that have not yet affected but are expected to have impact on the creditworthiness of the third parties. Below is the summary of grades as included in the categories presented in the table above:

- Neither past due nor impaired category includes grades "AA" (table 1 in Note 3) and "A" (table 2 in Note 3).
- Past-due but not impairment category includes receivables from grades "A", "B" and "C" (table 1 in Note 3) and "B" and "C" (table 2 in Note 3).
- Impaired category includes receivables from grade "D" (both table 1 and table 2 in Note 3).

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(Thousands of Georgian Lari unless otherwise stated)

39. Risk management continued

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet all its payment obligations when they fall due under normal or stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

The table below analyses assets and liabilities of the Group into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

31 December 2018	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	36,154	–	36,154
Amounts due from credit institutions	11,807	–	11,807
Insurance premiums receivables	23,643	–	23,643
Receivables from healthcare services	90,006	16,835	106,841
Receivables from sales of pharmaceuticals	20,440	–	20,440
Inventory	146,164	–	146,164
Prepayments	10,255	2,809	13,064
Current income tax assets	1,007	–	1,007
Investment in associate	–	3,124	3,124
Property and equipment	–	698,037	698,037
Goodwill and other intangible assets	–	152,298	152,298
Other assets	9,109	18,818	27,927
Total assets	348,585	891,921	1,240,506
Liabilities			
Accruals for employee compensation	26,615	–	26,615
Insurance contract liabilities	22,544	–	22,544
Accounts payable	97,921	7,171	105,092
Current income tax liabilities	41	–	41
Finance lease liabilities	8,676	–	8,676
Payable for share acquisitions	8,285	83,189	91,474
Borrowings	106,102	190,715	296,817
Debt securities issued	4,648	88,925	93,573
Other liabilities	17,680	2,963	20,643
Total liabilities	292,512	372,963	665,475
Net position	56,073	518,958	575,031
Accumulated gap	56,073	575,031	

39. Risk management continued

Liquidity risk and funding management continued

31 December 2017	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	48,840	–	48,840
Amounts due from credit institutions	14,768	–	14,768
Insurance premiums receivables	20,233	–	20,233
Receivables from healthcare services	100,944	–	100,944
Receivables from sales of pharmaceuticals	19,798	–	19,798
Inventory	131,849	–	131,849
Prepayments	16,448	13,906	30,354
Current income tax assets	2,026	–	2,026
Investment in associate	–	2,745	2,745
Property and equipment	–	642,859	642,859
Goodwill and other intangible assets	–	143,674	143,674
Other assets	10,309	12,439	22,748
Total assets	365,215	815,623	1,180,838
Liabilities			
Accruals for employee compensation	21,944	–	21,944
Insurance contract liabilities	20,953	–	20,953
Accounts payable	105,963	–	105,963
Current income tax liabilities	72	–	72
Finance lease liabilities	8,834	–	8,834
Payable for share acquisitions	15,946	82,312	98,258
Borrowings	60,695	206,315	267,010
Debt securities issued	4,483	89,010	93,493
Other liabilities	15,911	–	15,911
Total liabilities	254,801	377,637	632,438
Net position	110,414	437,986	548,400
Accumulated gap	110,414	548,400	

Amounts and maturities in respect of the insurance contract liabilities are based on management's best estimate based on statistical techniques and past experience. Management believes that the current level of the Group's liquidity is sufficient to meet all its present obligations and settle liabilities in timely manner.

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	**97,921**	**–**	**7,171**	**–**	**105,092**
Accruals for employee compensation	**26,615**	**–**	**–**	**–**	**26,615**
Debt securities issued	**4,877**	**4,712**	**118,350**	**–**	**127,939**
Borrowings	**45,655**	**78,224**	**204,433**	**23,459**	**351,771**
Payable for share acquisition	**5,041**	**2,677**	**85,487**	**–**	**93,205**
Finance lease liabilities	**8,780**	**–**	**–**	**–**	**8,780**
Total undiscounted financial liabilities	**188,889**	**85,613**	**415,441**	**23,459**	**713,402**

31 December 2017	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	105,963	–	–	–	105,963
Accruals for employee compensation	21,944	–	–	–	21,944
Debt securities issued	4,816	4,771	128,727	–	138,314
Borrowings	33,084	45,006	258,585	–	336,675
Payable for share acquisition	14,858	1,103	23,588	108,405	147,954
Finance lease liabilities	3,455	5,593	–	–	9,048
Total undiscounted financial liabilities	184,120	56,473	410,900	108,405	759,898

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(Thousands of Georgian Lari unless otherwise stated)

39. Risk management continued

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

The Group has exposure to market risks. The Group structures the levels of market risk it accepts through a Group market risk policy that determines what constitutes market risk for the Group.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Group has floating interest rate borrowings linked to LIBOR and NBG short-term loan refinancing rates and is therefore exposed to interest rate risk.

	31 December 2018			31 December 2017		
	GEL	US$	EUR	GEL	US$	EUR
Amounts due from credit institutions	9.30%	4.88%	–	5.00%	3.16%	–
Borrowings	11.09%	6.87%	12.00%	11.38%	5.02%	11.20%

Sensitivity of the consolidated profit or loss is the effect of the assumed changes in interest rates on the interest expense for the year. During the year ended 31 December 2018 and 2017 sensitivity analysis did not reveal any significant potential effect on the Group's equity.
The following table demonstrates sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated profit or loss:

Currency	Increase in basis points 31 December 2018	Sensitivity of interest expense 31 December 2018
US$	+1.04%	712
GEL	+0.25%	560

Currency	Increase in basis points 31 December 2018	Sensitivity of interest expense 31 December 2018
US$	-1.04%	(712)
GEL	-0.25%	(560)

Currency	Increase in basis points 31 December 2017	Sensitivity of interest expense 31 December 2017
US$	+0.53%	389
GEL	+3.50%	8,187

Currency	Increase in basis points 31 December 2017	Sensitivity of interest expense 31 December 2017
US$	-0.53%	(389)
GEL	-3.50%	(8,187)

Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to US dollar.

The Group's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group entities – Lari. Most of the Group's operations are denominated in Lari too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from US dollars-denominated borrowings that are partially hedged through cash deposits with banks, also denominated in US Dollars and the foreign currency forward contracts with the Group's counterparties. The Group also hedges currency risk component of two of its fixed assets that are intended for disposal through foreign exchange-denominated borrowings (Note 3). The hedge was fully effective in 2018. The gross value of foreign exchange fluctuation hedged equalled 2018: GEL 498 gain (2017: GEL 322 loss) on both hedged items and hedging instrument.

39. Risk management continued

Market risk continued

Currency risk continued

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2018 and 31 December 2017 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 2018			
	GEL	US$	EUR	Total
Assets				
Cash and cash equivalents	35,469	349	336	36,154
Amounts due from credit institutions	4,134	7,673	–	11,807
Receivables from sales of pharmaceuticals	18,427	1,109	904	20,440
Other assets: loans issued and lease deposit	728	2,556	–	3,284
Total monetary assets	58,758	11,687	1,240	71,685
Liabilities				
Accounts payable	60,582	18,758	25,752	105,092
Accruals for employee compensation	25,860	755	–	26,615
Payable for share acquisitions	71,831	19,643	–	91,474
Insurance contract liabilities	22,222	90	232	22,544
Borrowings	223,813	68,702	4,302	296,817
Finance lease liabilities	–	8,676	–	8,676
Total monetary liabilities	404,308	116,624	30,286	551,218
Net monetary position, before derivatives	(345,550)	(104,937)	(29,046)	(479,533)
Derivative financial instruments	(48,139)	48,159	–	20
Hedge accounting position	–	15,805	–	15,805
Net monetary position including derivatives	(393,689)	(40,973)	(29,046)	(463,708)
% Reasonably possible increase in currency exchange rate		10.04%	8.55%	
Effect on profit before income tax expense		(4,114)	(2,483)	
% Reasonably possible decrease in currency exchange rate		-10.04%	-8.55%	
Effect on profit before income tax expense		4,114	2,483	

	31 December 2017			
	GEL	US$	EUR	Total
Assets				
Cash and cash equivalents	38,269	9,738	833	48,840
Amounts due from credit institutions	5,659	9,109	–	14,768
Receivables from sales of pharmaceuticals	17,293	775	1,730	19,798
Other assets: loans issued and lease deposit	769	2,430	–	3,199
Total monetary assets	61,990	22,052	2,563	86,605
Liabilities				
Accounts payable	64,011	15,275	26,677	105,963
Accruals for employee compensation	21,248	696	–	21,944
Payable for share acquisitions	67,361	30,897	–	98,258
Insurance contract liabilities	20,676	131	146	20,953
Borrowings	189,042	73,363	4,605	267,010
Finance lease liabilities	–	8,834	–	8,834
Total monetary liabilities	362,338	129,196	31,428	522,962
Net monetary position, before derivatives	(300,348)	(107,144)	(28,865)	(436,357)
Derivative financial instruments	(50,780)	49,819	–	(961)
Hedge accounting position	–	15,307	–	15,307
Net monetary position including derivatives	(351,128)	(42,018)	(28,865)	(422,011)
% Reasonably possible increase in currency exchange rate		11.45%	17.19%	
Effect on profit before income tax expense		(4,811)	(4,962)	
% Reasonably possible decrease in currency exchange rate		-11.45%	-17.19%	
Effect on profit before income tax expense		4,811	4,962	

As part of its risk management, the Group uses foreign exchange forward contracts to manage exposures resulting from changes in foreign currency exchange rates. As at 31 December 2018 the Group had US$26 million (2017: US$20.3 million) notional value foreign exchange forward contracts.

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(Thousands of Georgian Lari unless otherwise stated)

39. Risk management continued

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.

Operating environment

The Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country and undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

40. Fair value measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Group uses the following hierarchy for determining and disclosing the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy. They also include a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the Financial Statements. During 2018 and 2017 there have been no transfers between the levels.

	Level 1	Level 2	Level 3	Total fair value 31 December 2018	Carrying value 31 December 2018	Unrecognised gain (loss) 31 December 2018
Assets measured at fair value						
Property and equipment	–	–	470,247	470,247	470,247	–
Other assets: call option	–	–	16,969	16,969	16,969	–
Liabilities measured at fair value						
Payables for share acquisitions: put option	–	–	71,668	71,668	71,668	–
Payables for share acquisitions: holdback for business acquisitions	–	–	19,806	19,806	19,806	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	36,154	–	36,154	36,154	–
Amounts due from credit institutions	–	–	11,807	11,807	11,807	–
Receivables from healthcare services	–	–	106,841	106,841	106,841	–
Insurance premiums receivable	–	–	23,643	23,643	23,643	–
Receivables from sales of pharmaceuticals	–	–	20,440	20,440	20,440	–
Other assets: loans issued and lease deposit	–	–	3,284	3,284	3,284	–
Other assets: non-medical receivables	–	–	170	170	170	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	293,229	293,229	296,817	3,588
Debt securities issued	–	–	93,434	93,434	93,573	139
Payable for share acquisition	–	–	91,474	91,474	91,474	–
Finance lease liabilities	–	–	8,697	8,697	8,676	(21)

40. Fair value measurements continued

Fair value hierarchy continued

	Level 1	Level 2	Level 3	Total fair value 31 December 2017	Carrying value 31 December 2017	Unrecognised gain (loss) 31 December 2017
Assets measured at fair value						
Property and equipment	–	–	441,528	441,528	441,528	–
Other assets: call option	–	–	10,106	10,106	10,106	–
Other assets: derivative financial asset	–	130	–	130	130	–
Liabilities measured at fair value						
Payables for share acquisitions: put option	–	–	61,512	61,512	61,512	–
Payables for share acquisitions: holdback for business acquisitions	–	–	36,746	36,746	36,746	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	48,840	–	48,840	48,840	–
Amounts due from credit institutions	–	–	14,768	14,768	14,768	–
Receivables from healthcare services	–	–	100,944	100,944	100,944	–
Insurance premiums receivable	–	–	20,233	20,233	20,233	–
Receivables from sales of pharmaceuticals	–	–	19,798	19,798	19,798	–
Other assets: loans issued and lease deposit	–	–	3,199	3,199	3,199	–
Other assets: non-medical receivables	–	–	1,626	1,626	1,626	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	256,167	256,167	267,010	10,843
Debt securities issued	–	–	95,234	95,234	93,493	(1,741)
Finance lease liabilities	–	–	8,933	8,933	8,834	(99)
Other liabilities: derivative financial liabilities	–	1,091	–	1,091	1,091	–

The Group carries land and office buildings and hospitals and clinics at fair value (Level 3). Reconciliation between opening and closing balances is presented in Note 11.

The following is a description of the determination of fair value for financial instruments and property that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Property and equipment

Property carried at fair value consists of land and buildings and hospitals and clinics, for which fair value is derived by certain inputs that are not based on observable market data. The value of these assets is measured using the market and depreciated replacement cost ("DRC") approaches. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable land and buildings, respectively, while DRC approach uses construction costs for similar properties.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs comprise forward foreign exchange contracts. The applied valuation technique employs a discounted forward pricing model. The model incorporates various inputs including the foreign exchange spot and forward rates.

Call option represents option on acquisition of remaining 33% equity interest in JSC GEPHA from non-controlling interests in 2022 based on pre-determined EBITDA multiple (6.0 times EBITDA) of JSC GEPHA. The Group has applied binomial model for option valuation. Major unobservable input for call option valuation represents volatility of price of the underlying 33% minority share of equity, which was estimated based on actual volatility of Parent Company's market capitalisation from 1 January 2013 till 31 December 2017 period, which equalled 34.7%. If the volatility was 10% higher, fair value of call option would increase by GEL 2,533 (2017: GEL 1,989) if volatility was 10% lower call option value would decrease by GEL 2,770 (2017: GEL 1,940). The Group recognised GEL 6,863 (2017: GEL 10,106) unrealised gains on the call option during the year ended 31 December 2018.

Put option represents option owned by non-controlling shareholders on sale of remaining 33% equity interest in JSC GEPHA to the Group in 2022 based on pre-determined EBITDA multiple (4.5 times EBITDA) of JSC GEPHA. The Group has estimated put option value based on number of unobservable inputs. Major unobservable input for put option valuation represents estimated EBITDA of JSC GEPHA as well as discount rate used to value the option. The Group has applied 11% discount rate to value the option. If the discount rate was 1% higher, fair value of put option redemption liability would decrease by GEL 2,528 (2017: GEL 2,674) if discount rate was 1% lower put option redemption liability value would increase by GEL 2,644 (2017: GEL 2,821).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari unless otherwise stated)

40. Fair value measurements continued

Fair value hierarchy continued

Derivative financial instruments continued

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	1 January 2017	Initial Recognition	Remeasurement in Equity	Payment	Remeasurement in Income Statement	Business combinations	31 December 2017
Level 3 financial assets							
Call option	–	–	–	–	10,106	–	10,106
Level 3 financial liabilities							
Payables for share acquisitions: put option	–	54,921	6,591	–	–	–	61,512
Payables for share acquisitions: holdback for business acquisitions	10,986	–	–	(46,404)	(74)	72,238	36,746

	1 January 2018	Initial Recognition	Remeasurement in Equity	Payment	Remeasurement in Income Statement	Business combinations	31 December 2018
Level 3 financial assets							
Call option	10,106	–	–	–	6,863	–	16,969
Level 3 financial liabilities							
Payables for share acquisitions: put option	61,512	–	10,156	–	–	–	71,668
Payables for share acquisitions: holdback for business acquisitions	36,746	–	–	(16,626)	(1,340)	1,026	19,806

Impact of changes in key assumptions on fair value of Level 3 assets measured at fair value

Level 3 property at fair value

Property and equipment	31 December 2018	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Land and office buildings	18,524	Market approach	Price per square metre, land, building	5-2,284	Square metres, building	123-1,770	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Hospitals and clinics	443,297	Market and DRC approaches	Price per square metre, land, building	3-1,106	Square metres, building	151-30,700	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not already recorded at fair value in the consolidated Financial Statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) as well as for all short-term state receivables it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on a discounted cash flow analysis using prevailing money-market interest rates for debts with similar credit risk and maturity.

41. Related party transactions

In accordance with IAS 24 *Related Party Disclosures,* parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

41. Related party transactions continued

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 2018		31 December 2017	
	Entities under common control**	Other***	Entities under common control**	Other***
Assets				
Cash and cash equivalents	–	–	23,720	–
Amounts due from credit institutions	–	–	6,218	–
Insurance premiums receivable	621	–	2,511	–
Other assets: investment securities available-for-sale	684	–	–	–
Other assets: derivative financial assets	–	–	130	–
Prepayments and other assets: other	60	–	219	2,128
	1,365	–	32,798	2,128
Liabilities				
Accounts payable	311	–	650	–
Borrowings*	–	6,031	50,975	6,790
Other liabilities: derivative financial liability	–	–	1,091	–
Other liabilities: other	–	–	195	–
	311	6,031	52,911	6,790

	Year ended 31 December 2018	Year ended 31 December 2017
	Entities under common control**	Entities under common control**
Income and expenses		
Net insurance premiums earned	1,122	4,214
General and administrative expenses	(801)	(2,542)
Interest income	48	1,355
Interest expense	–	(6,463)
Net gains from foreign currencies	(113)	(6,093)
Other operating expenses	–	(882)
Other operating income	120	–
Cost of healthcare services and medical trials	(1,525)	(1,059)
	(1,149)	(11,470)

* Borrowings from other parties comprise loans from the minority shareholders and are unsecured, while borrowings from entities under common control in 2017 fully comprise of loans from JSC Bank of Georgia and are fully secured.

** Entities under common control include subsidiaries of Georgia Capital Group PLC since 30 May 2018 and subsidiaries of BGEO Group PLC before 29 May 2018 inclusively. The Group had no transactions with Georgia Capital, only with its subsidiaries.

*** Other comprise non-controlling shareholders in GNCo and LLC Regional Hospital.

Compensation of key management personnel comprised the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and cash bonuses	6,308	5,773
Share-based compensation	4,563	3,652
Total key management compensation*	10,871	9,425

* Key management personnel represent the Board of Directors.

42. Events after reporting period

In January 2019 JSC Insurance Company Imedi L acquired a significant new client based on the number of insured clients, the Ministry of Defence, by winning a recent tender process. The Ministry of Defence is the country's one of the largest entities by number of insured clients. The Group expects GEL 12.5 million additional insurance revenue from the client in 2019 and also expects synergies with healthcare and pharma segments.

In March 2019, the Group recommended to shareholders to adopt a dividend policy to distribute 20%-30% of annual profits attributable to shareholders as dividends.

In January 2019, 67% owned subsidiary of the Group, JSC GEPHA, declared dividend of GEL 24.0 million, of which GEL 16.1 million is attributable to JSC Georgia Healthcare Group and GEL 7.9 million to non-controlling interest shareholders. Out of the declared amount, GEL 2.0 million was paid to non-controlling interest shareholders during subsequent period.

Abbreviations

ABC	ABC Pharmacy
AGM	Annual General Meeting
AM	LLC Aliance Med
AMR	Antimicrobial Resistance
BGEO	BGEO Group PLC
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure (capex)
CDC	Centres for Disease Control and Prevention
CGMA	Chartered General Management Accountant
CO	Carbon Monoxide
CPD	Continuing Professional Development Programmes
CEO	Chief Executive Officer
CNF	Caucasus Nature Fund
DAC	Deferred Acquisition Costs
DCFTA	Deep and Comprehensive Free Trade Agreement
DHP	Digital Healthcare Platform
DSO	Day's Sales Outstanding
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EMA	European Medicines Agency
EPS	Earnings Per Share
EMR	Electronic Medical Records
ESLD	End Stage Liver Diseases
ESOP	Employee Stock Ownership Plan
EU	European Union
EY	Ernst & Young LLP
FDA	Food and Drug Administration
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GBP	Great British Pound, national currency of the UK
GCAP	Georgia Capital PLC
GDP	Gross Domestic Product
GEL	Georgian Lari or Lari, national currency of Georgia
GEPHA	JSC GEPHA
GHG	Georgia Healthcare Group
GPR	Gross Premium Revenues
GPC	JSC GPC
Group	Georgia Healthcare Group
HIS	Hospital Information System
HR	Human Resources
HRMS	Human Resources Management System
HTMC	High Technology Medical Centre University Clinic
IAD	Internal Audit Department
IBNR	Incurred but not reported yet
ICP	Infections Control and Prevention
IT	Informational Technology
IFRS	International Financial Reporting Standards
IFRIC	IFRS Interpretations Committee
IMF	International Monetary Fund
IPO	Initial Public Offering
ISSSA	Insurance State Supervision Service Agency of Georgia
IVF	In Vitro Fertilisation
JCI	Joint Commission International
KBO	Key Business Objectives
KPI	Key Performance Indicator
LGD	Loss Given Default
LIMS	Laboratory Information Management System
LTIP	Long-term incentive plan
MCA	Medical Center Almedi
MIA	Ministry of Internal Affairs
MoU	Memorandum of Understanding
NBG	National Bank of Georgia
NCDC	National Centre for Disease Control and Public Health
OKR	Objectives and Key Results
OOP	Out of Pocket
OTC	Over the Counter
PACS	Picture Archiving and Communication System
PD	Probability of Default
RBNS	Reported but not yet settled
RED	Risk Event Database
RFP	Requests for Proposals/Invitations to Tender
ROIC	Return on Invested Capital
SDG	Sustainable Development Goals
SIP	State Insurance Programme
SOP	Standard Operating Procedures
SSA	Social Service Agency
S&P	Standard & Poor's
UHC	Universal Healthcare Programme
UPR	Unearned Premium Reserve
USD	United State Dollar, national currency of the US
WHO	World Health Organisation
WRI/WBCSD	World Resources Institute/World Business Council for Sustainable Development

Glossary

Average length of stay	Number of inpatient days divided by number of patients. This calculation excludes data for the emergency department.
Bed occupancy	Number of total inpatient nights divided by the number of bed days (number of days multiplied by number of beds, excluding emergency beds) available during the year.
Combined ratio	Sum of loss ratio and expense ratio.
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	Profit for the period attributable to shareholders of the Company divided by weighted average number of shares outstanding during the same period (unless otherwise noted).
EBITDA	The Group's profit before income tax expense excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income.
EBITDA to cash conversion	Equals net cash flows from/(used in) operating activities before income tax divided by EBITDA.
EBITDA margin	EBITDA divided by gross revenue excluding corrections and rebates.
Eliminations	Intercompany transactions between medical insurance and healthcare services.
Expense ratio	Operating expenses excluding interest expense divided by net insurance revenue/
FTE	Full-time employees.
Gross margin	Gross profit divided by gross revenue excluding corrections and rebates.
Group's expansion capital expenditure (capex)	Longer-term expenditures including acquisition of properties with long-term useful lives.
Group's maintenance capital expenditure	Short-term expenditures (up to one year).
Group's rent expense	Expenses on operating lease contracts.
Loss ratio	Net insurance claims divided by net insurance revenue.
Materials rate	Cost of materials and supplies divided by gross revenue excluding corrections and rebates.
Net debt to EBITDA	Borrowings less cash and cash equivalents and amounts due from credit institutions divided by EBITDA.
Normalised profit 2016	Is the net profit adjusted for one-off non-recurring gain due to deferred tax adjustments (in the aggregate amount of GEL 24.0 million for GHG, which resulted from the Group's healthcare services positive GEL 25.0 million, medical insurance business negative GEL 0.8 million and pharma business negative GEL 0.2 million) and adjusted for one-off currency translation loss in June ("translation loss") (in the amount of GEL 2.1 million).
Operating leverage	Difference between percentage increase in gross profit and percentage increase in total operating costs.
Organic growth	Healthcare revenue growth, excluding growth derived from the hospitals and clinics acquired during the current year.
Other operating expenses	Operating expenses which are not included in cost of sales and administrative expenses, which primarily include the cost of medicines sold, any losses from the sale of property and equipment, expenses on factoring, write-offs of fixed assets and other.
Renewal rate	Number of clients who renewed insurance contracts during given period divided by total number of clients.
Return on average equity	Profit for the period attributable to shareholders of the Company divided by average equity attributable to shareholders of the Company for the same period.
Revenue cash conversion	Equals revenue received from all business lines divided by net revenue.
Return on invested capital	Equals EBITDA minus depreciation, plus interest income divided by aggregate amount of total equity and borrowed funds.

Shareholder information

Annual General Meeting
The Annual General Meeting will be held at 10:00 am (London time) on 22 May 2019 at the offices of Baker & McKenzie, 100 New Bridge Street, London, EC4V 6JA, United Kingdom. Details of the business to be conducted at the AGM are contained in the Notice of AGM which shall be mailed to shareholders who have elected to receive hard copies of shareholder information on or about 10 April 2019, and will be available on the Company's website www.ghg.com.ge.

Shareholder enquiries
GHG PLC's share register is maintained by Computershare Investor Services PLC. Any queries about the administration of holdings of ordinary shares, such as change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website www.investorcentre.co.uk or by calling the Shareholder Helpline on +44(0) 330 303 1186.

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Dividends
On 26 March 2019, the Directors of Georgia Healthcare Group PLC recommended a final dividend to be paid in respect of the 2018 financial year in the amount of GEL 0.053 per share (payable in British Pounds Sterling at the prevailing rate), subject to the shareholder approval at the GHG's AGM. As a holding company whose principal assets are the shares of its subsidiaries, Georgia Healthcare Group PLC relies primarily on dividends and other statutorily and contractually permissible payments from its subsidiaries.

If the dividend is approved at GHG's AGM on 22 May 2019, the following dividend timetable will apply:

Ex-Dividend Date: 27 June 2019
Record Date: 28 June 2019
Currency Conversion Date: 28 June 2019
Payment Date: 12 July 2019

Forward-looking statements
Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Healthcare Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, and certain of which include, among other things, those described in "Principal risks and uncertainties" included in this Annual Report and Accounts, see pages 53 to 59. No part of these results or report constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Healthcare Group PLC or any other entity, and must not be relied upon in any way in connection with any investment decision. Georgia Healthcare Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

Notes

Notes

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